

View: Receiving Appointed date crucial for growth; maintain Buy

- PNC reported revenue in line, EBITDA margin lower and APAT above estimates.
- PNC posted 7.6%/ 3.4%/ 2.6% YoY growth in revenue/ EBITDA/ Adj. PAT to Rs11.6 bn/ Rs1.6 bn/ Rs761 mn in Q4FY20. The company is facing labour shortage and is currently operating with 75% strength and expects 100% post monsoon.
- We broadly maintain our revenue and EBITDA margin estimates for FY21E/ FY22E. However, we increase our FY22E APAT estimates due to lower tax as company will adopt the new tax rate from FY22E.
- We expect healthy revenue/ APAT CAGR of 9.1%/ 8.1% over FY20-22E. Moreover, revenue/ APAT growth significantly slows down to 2.3%/ -10.3% in FY21E due to lockdown impact and jumps back to revenue/ APAT growth of 16.4%/ 30.2% in FY22E driven by stabilization of labour and supply chain issues coupled with execution from 4 HAM projects where AD is expected in Q3FY21E. The current core construction valuations of 11.3x/ 8.7x FY21E/ FY22E EPS are attractive. Thus, we maintain Buy, with SOTP of Rs233 (10x FY22E EPS and 1x FY22E P/B for HAM and BOT investments).

We expect debt to rise to Rs4.5 bn each in FY21E/ FY22E vs. Rs3.7/ Rs3.3 in FY19/ FY20. We factor NWC (% of revenue) of 30.7%/ 22.6% (FY21E/ FY22E) vs. 25.7%/ 32.4% (FY20/ FY19), due to a modest growth in revenue, a capex of Rs3.5 bn (over FY20-22E), and an equity investment of Rs10.4 bn (over FY20-22E) in HAM projects.

Order book of Rs154.2 bn (3.2x FY20 revenue)

PNC's order book stands at Rs84.2 bn as on Q4FY20. PNC won the Challakere-Hariyur HAM (EPC ~Rs9.35 bn) and 4 HAM (EPC ~Rs60.7 bn) which are not included in order book. Considering this, order book stands at Rs154.2 bn (3.2x FY20 revenue). We factor fresh inflow of Rs50 bn (Rs65.4 bn received)/ Rs70 bn in FY21E/ FY22E vs. management guidance of Rs70 bn in FY21E. PNC expects to receive appointed date for remaining Challakere-Hariyur HAM by mid Jul'20 and 4 HAM projects in Nov'20.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	11,579	10,757	7.6	12,180	(4.9)
Total Expense	10,016	9,245	8.3	10,468	(4.3)
EBITDA	1,563	1,512	3.4	1,712	(8.7)
Depreciation	324	282	14.7	326	(0.9)
EBIT	1,240	1,230	0.8	1,386	(10.5)
Other Income	159	123	30.1	144	11.1
Interest	316	194	63.1	401	(21.2)
EBT	1,083	1,158	(6.5)	1,128	(4.0)
Tax	322	(241)	(233.5)	356	(9.7)
RPAT	761	1,399	(45.6)	771	(1.4)
APAT	761	741	2.6	772	(1.5)
			(bps)		(bps)
Gross Margin (%)	29.0	31.8	(279)	30.5	(158)
EBITDA Margin (%)	13.5	14.1	(55)	14.1	(56)
NPM (%)	6.6	6.9	(32)	6.3	23
Tax Rate (%)	29.7	(20.8)	5054	31.6	(188)
EBIT Margin (%)	10.7	11.4	(73)	11.4	(67)

CMP	Rs 139
Target / Upside	Rs 233 / 68%
BSE Sensex	35,231
NSE Nifty	10,383

Scrip Details

Equity / FV	Rs 513mn / Rs 2
Market Cap	Rs 36bn
	USD 473mn
52-week High/Low	Rs 219/Rs 80
Avg. Volume (no)	1,68,495
NSE Symbol	PNCINFRA
Bloomberg Code	PNCL IN

Shareholding Pattern Mar'20(%)

Promoters	56.1
MF/Banks/FIs	23.8
FII	6.4
Public / Others	13.8

Valuation (x)

	FY20A	FY21E	FY22E
P/E	10.2	11.3	8.7
EV/EBITDA	4.1	5.1	4.7
ROE (%)	15.8	11.9	13.5
RoACE (%)	23.7	14.6	15.5

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	48,779	49,902	58,083
EBITDA	7,643	6,879	8,038
PAT	3,515	3,152	4,104
EPS (Rs.)	13.7	12.3	16.0

VP Research: Shraavan Shah

Tel: +91 22 40969749

E-mail: shravans@dolatcapital.com

Associate: Maulik Shah

Tel: +91 22 40969775

E-mail: mauliks@dolatcapital.com

Exhibit 1: Actual vs. DART estimates

(in Rs mn)	Actual	DART Est.	% Variation	Comment
Revenue	11,579	11,967	(3.2)	In line with estimates
EBITDA	1,563	1,742	(10.2)	-
EBITDA Margin (%)	13.5	14.6	(105 bps)	Due to higher construction expense vs expected
Adj. PAT	761	670	13.6	Due to lower tax vs expected

Source: Company, DART

Exhibit 2: Change in estimates – Broadly maintain estimates for FY21E and increase estimates for FY22E

(Rs mn)	FY21E			FY22E		
	New	Old	% chg	New	Old	% chg
Revenue	49,902	52,454	(4.9)	58,083	55,348	4.9
EBITDA	6,879	7,233	(4.9)	8,038	7,654	5.0
EBITDA Margin (%)	13.8	13.8	-0	13.8	13.8	1
Adj. PAT	3,152	3,457	(8.8)	4,104	3,577	14.7
EPS (Rs)	12.3	13.5	(8.8)	16.0	13.9	14.7

Source: Company, DART

Key earnings takeaways

- Maximum impact of covid-19 pandemic will be felt in FY21E with issues like labour availability, supply chain and monsoon.
- Bidding pipeline of NHA of 60 projects (65% HAM, 35% EPC) to revive from Q2FY21E. Will focus on road EPC projects. Order inflow guidance of Rs70 bn for FY21E.
- Current activity stands at 75% of normal level. Expect 100% post monsoon once labour comes back. Expect minimum revenue of 50% of Q4FY20 in Q1FY21E.
- AD for new 4 HAM projects expected by Nov'20. 80% land is available for the same. Challakere Hariyur FC completed with Axis Bank and 80% land is available; expect AD in mid Jul'20.
- Total equity requirement for 7 HAM is Rs8.5 bn of which Rs4.44 bn is invested in FY20. Expect Rs2.8 bn/ Rs3.8 bn/ Rs1.75 bn in FY21E/ FY22E/ FY23E.
- Expect total cash generation of Rs17 bn in next 3 years.
- Capex in FY20 was Rs780 mn and expect Rs700-750 mn in FY21E. Standalone Debt stands at Rs3.3 bn. Interest on mobilization advance paid in Q4FY20/ FY20 stands at Rs140 mn/ Rs550 mn.
- WC days to remain stable at 65-70 days in FY21E vs. 57 days in FY20.
- Retention money/ Mobilization advance as on FY20 stands at Rs1.1 bn/ Rs6.94 bn.
- Loans given to Bareilly Almora/ Ghaziabad stood at Rs300 mn/ Rs520 mn in FY20 and expect further infusion of Rs250 mn in FY21E.
- No arbitration awards expected in Q1FY21E.
- Monetization plans for HAM are on hold for now. Expect Ghaziabad deal in 5 months from now.

- Payments of Purvanchal are on time. Ganga expressway DPR is in advanced stages.
- Early completion bonus of Rs141.1 mn for Aligarh Moradabad project didn't account in Q4FY20 due to slower process on account of covid-19.
- Tax rate guidance of 30-33%/ 25% in FY21E/ FY22E. Pending MAT credit stands at Rs1.12 bn.
- Q4FY20 Toll revenue – MP highways Rs108 mn, Kanpur Ayodhya Rs90 mn, Kanpur highway Rs234 mn, Narela Rs93.5 mn, Bareilly Almora Rs99 mn, Ghaziabad Aligarh - Rs490 mn.

Exhibit 3: Q4FY20 Performance (Standalone)

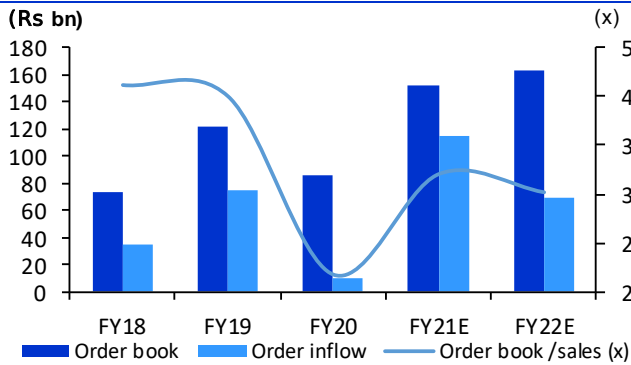
Particulars (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue	11,579	10,757	7.6	12,180	(4.9)	48,779	30,969	57.5
Material consumed	8,225	7,342	12.0	8,460	(2.8)	33,710	21,140	59.5
Employees cost	623	544	14.6	853	(27.0)	2,651	1,923	37.8
Other expenditure	1,168	1,360	(14.1)	1,154	1.2	4,775	3,333	43.3
Total expenditure	10,016	9,245	8.3	10,468	(4.3)	41,136	26,395	55.8
EBITDA	1,563	1,512	3.4	1,712	(8.7)	7,643	4,573	67.1
Depreciation	324	282	14.7	326	(0.9)	1,264	922	37.0
Operating profit	1,240	1,230	0.8	1,386	(10.5)	6,379	3,651	74.7
Other income	159	123	30.1	144	11.1	885	430	105.6
EBIT	1,399	1,352	3.5	1,529	(8.5)	7,264	4,081	78.0
Interest	316	194	63.1	401	(21.2)	1,144	641	78.5
EBT	1,083	1,158	(6.5)	1,128	(4.0)	6,120	3,440	77.9
Current tax	381	389	(2.0)	383	(0.3)	1,611	998	61.4
Deferred tax	(59)	28	-	-27	-	(94)	20	-
MAT Credit	-	-	-	-	-	-	(169)	-
Tax for earlier years	-	(658)	-	1	(100.0)	1	(658)	-
Net income	761	1,399	(45.6)	771	(1.4)	4,603	3,249	41.7
Adjustments	-	(658)	-	1	(100.0)	(1,088)	(1,092)	-
Adjusted net income	761	741	2.6	772	(1.5)	3,515	2,157	62.9
EPS (Rs)	3.0	2.9	2.6	3.0	(1.5)	13.7	8.4	62.9
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	13.5	14.1	(55)	14.1	(56)	15.7	14.8	90
EBIDTA Margin (Incl. O.I.)	14.9	15.2	(32)	15.2	(36)	17.5	16.2	133
NPM (%)	6.6	6.9	(32)	6.3	23	7.2	7.0	24
Tax/PBT (%)	29.7	(20.8)	-	31.6	(188)	24.8	5.6	1,923
Material cons/Revenue (%)	71.0	68.2	279	69.5	158	69.1	68.3	85

Source: Company, DART

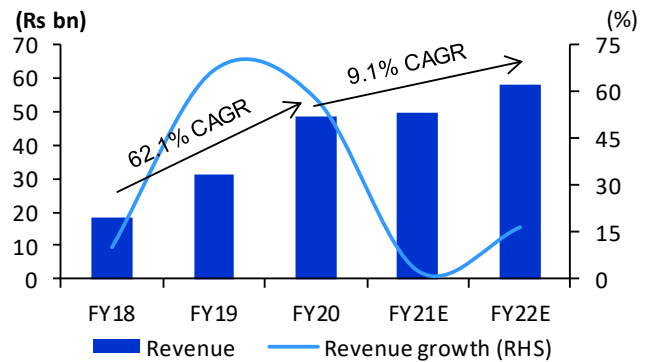
Exhibit 4: SOTP Valuation

Component	Valuation Method	Rs /sh	%
Standalone cons business	10x FY22E EPS	16.0	68.6
Road BOTs	1xBV	15.4	6.6
HAM projects	1xBV	57.9	24.8
Total		233.3	100.0
CMP		139.3	
Potential upside (%)		67.5	

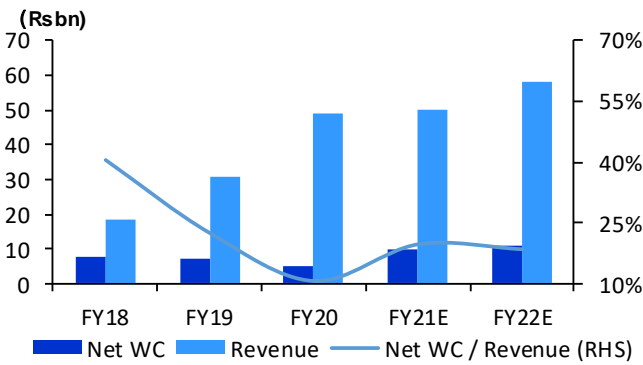
Source: DART, Company

Exhibit 5: Order book trend


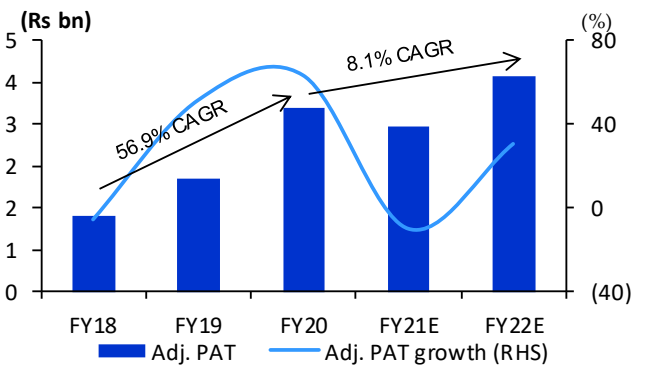
Source: Company, DART

Exhibit 6: 9.1% Revenue CAGR (FY20-22E)


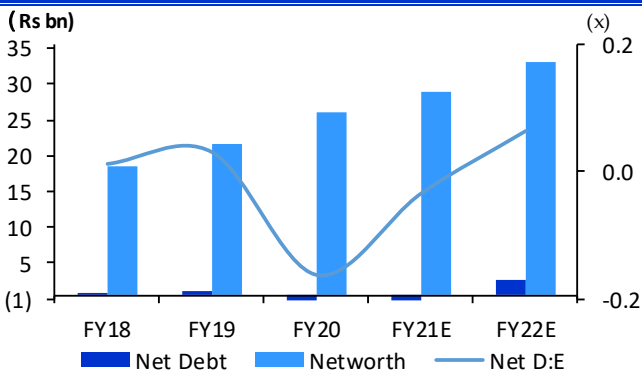
Source: Company, DART

Exhibit 7: Factored in marginal dip in working capital


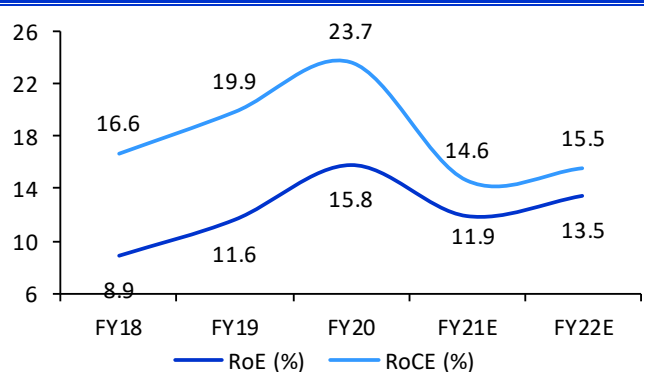
Source: Company, DART

Exhibit 8: 8.1% Adj. PAT CAGR (FY20-22E)


Source: Company, DART

Exhibit 9: Despite rise, comfortable Net D:E


Source: Company, DART

Exhibit 10: Return ratios trend


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	30,969	48,779	49,902	58,083
Total Expense	26,395	41,136	43,023	50,045
COGS	21,140	33,710	34,482	40,321
Employees Cost	1,923	2,651	3,049	3,354
Other expenses	3,333	4,775	5,492	6,370
EBIDTA	4,573	7,643	6,879	8,038
Depreciation	922	1,264	1,467	1,708
EBIT	3,651	6,379	5,412	6,329
Interest	641	1,144	1,100	1,150
Other Income	430	885	393	337
Exc. / E.O. items	0	0	0	0
EBT	3,440	6,120	4,705	5,516
Tax	191	1,517	1,553	1,412
RPAT	3,249	4,603	3,152	4,104
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,157	3,515	3,152	4,104

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	513	513	513	513
Minority Interest	0	0	0	0
Reserves & Surplus	20,639	24,953	27,977	31,953
Net Worth	21,152	25,466	28,490	32,466
Total Debt	3,747	3,260	4,538	4,538
Net Deferred Tax Liability	(1,673)	(1,215)	(1,185)	(1,151)
Total Capital Employed	23,226	27,511	31,842	35,852

Applications of Funds

Net Block	6,155	5,880	6,414	6,205
CWIP	62	0	20	20
Investments	5,730	6,732	10,103	16,484
Current Assets, Loans & Advances	23,535	29,652	29,761	29,989
Inventories	4,036	2,673	3,012	3,503
Receivables	6,154	8,035	8,982	10,164
Cash and Bank Balances	3,094	7,401	5,508	2,447
Loans and Advances	0	0	0	0
Other Current Assets	10,251	11,544	12,259	13,874
Less: Current Liabilities & Provisions	12,256	15,377	14,454	16,845
Payables	4,737	4,675	4,733	5,505
Other Current Liabilities	7,519	10,701	9,722	11,340
<i>sub total</i>				
Net Current Assets	11,279	14,276	15,306	13,143
Total Assets	23,226	26,888	31,842	35,852

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	31.7	30.9	30.9	30.6
EBIDTA Margin	14.8	15.7	13.8	13.8
EBIT Margin	11.8	13.1	10.8	10.9
Tax rate	5.6	24.8	33.0	25.6
Net Profit Margin	7.0	7.2	6.3	7.1
(B) As Percentage of Net Sales (%)				
COGS	68.3	69.1	69.1	69.4
Employee	6.2	5.4	6.1	5.8
Other	10.8	9.8	11.0	11.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.2	0.1
Interest Coverage	5.7	5.6	4.9	5.5
Inventory days	48	20	22	22
Debtors days	73	60	66	64
Average Cost of Debt	23.5	32.7	28.2	25.3
Payable days	56	35	35	35
Working Capital days	133	107	112	83
FA T/O	5.0	8.3	7.8	9.4
(D) Measures of Investment				
AEPS (Rs)	8.4	13.7	12.3	16.0
CEPS (Rs)	12.0	18.6	18.0	22.7
DPS (Rs)	0.6	1.2	0.5	0.5
Dividend Payout (%)	7.2	8.8	4.1	3.1
BVPS (Rs)	82.5	99.3	111.1	126.6
RoANW (%)	11.6	15.8	11.9	13.5
RoACE (%)	19.9	23.7	14.6	15.5
RoAIC (%)	22.5	30.2	18.8	17.6
(E) Valuation Ratios				
CMP (Rs)	139	139	139	139
P/E	16.6	10.2	11.3	8.7
Mcap (Rs Mn)	35,723	35,723	35,723	35,723
MCap/ Sales	1.2	0.7	0.7	0.6
EV	36,376	31,583	34,753	37,813
EV/Sales	1.2	0.6	0.7	0.7
EV/EBITDA	8.0	4.1	5.1	4.7
P/BV	1.7	1.4	1.3	1.1
Dividend Yield (%)	0.4	0.9	0.4	0.4
(F) Growth Rate (%)				
Revenue	66.8	57.5	2.3	16.4
EBITDA	43.4	67.1	(10.0)	16.8
EBIT	51.1	74.7	(15.2)	16.9
PBT	47.1	77.9	(23.1)	17.2
APAT	51.1	62.9	(10.3)	30.2
EPS	51.1	62.9	(10.3)	30.2
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	3,700	8,126	2,433	5,762
CFI	(3,348)	(2,304)	(4,375)	(7,544)
CFF	1,269	(1,516)	49	(1,278)
FCFF	903	7,217	413	4,262
Opening Cash	1,473	3,094	7,400	5,508
Closing Cash	3,094	7,400	5,508	2,447

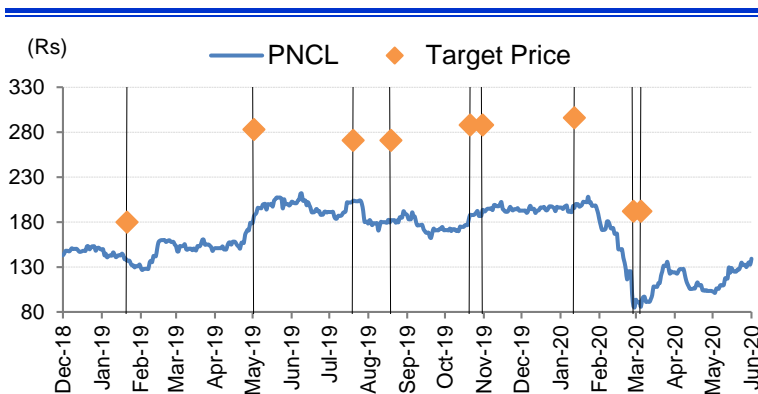
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	Buy	180	137
May-19	Buy	283	187
Aug-19	Buy	271	204
Sep-19	Buy	271	182
Nov-19	Buy	288	188
Nov-19	Buy	288	194
Feb-20	Buy	296	196
Mar-20	Buy	192	87
Mar-20	Buy	192	86

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740

Equity Trading	Designation	E-mail	Direct Lines
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
