27 June 2020

PNC Infratech

All requisites in place; favourable conditions needed; Buy

Rating: **Buy**
Target Price: ₹202
Share Price: ₹139

A sharply shortened working-capital cycle makes an inspiring FY20 all the more appealing. More positive is that there was no single driver for this. The recent strong hybrid-annuity wins considerably boost revenue assurance, but also bring with them greater funding needs. The balance sheet is in shape to meet this, and operations have mostly good generation potential for it. Any success with renewed efforts to monetise Ghaziabad-Aligarh (on the earlier agreement having expired) would augur well. Ample revenue assurance and a well-placed balance sheet are but some of the factors supporting a Buy call.

Four hybrids added. These four (three in Q4, one in May'20; aggregate bid cost: ~₹66bn) help considerably augment revenue assurance. Incl. the yet-to-be appointed five hybrid annuities (one from the earlier set), the OB (~₹86bn at end-Mar'20, ~1.8x BtB) shoots up to over ₹145bn. Equity required is ~₹6bn, taking commitments for the next 2-3 years to ~₹10bn. Management sees ~₹17bn internal accruals in the next three years to suffice.

Ghaziabad-Aligarh monetisation; efforts still underway. The earlier share-purchase agreement with Cube Highways lapsed on expiry of the 12-month period (to close the transaction). With the parties deciding not to extend the agreement, discussions have begun with another prospective investor. Due diligence is underway; management expects an outcome in five months.

Mobilisation advances, not the only contributor to contracted NWC. The 40-day y/y lower (flat q/q) NWC meant end-Mar'20 cash & equivalents exceeded gross debt by ~₹4.2bn (~₹3.3bn better q/q, ~₹5.4bn y/y).

Valuation. Adjusting for the Covid-impact, FY21e earnings are ~27% lower (~9% for FY22 on the rub-off effect). Our sum-of-parts-based TP is revised from ₹277 to ₹202, derived using 9x FY22 construction EPS and investments at 0.8x of DCF or of invested value. At the CMP, the stock (excl. investments) trades at 6.2x FY22e EPS. **Risk.** Prolonged Covid-19 impact.

Key financials (YE Mar)	FY18	FY19	FY20P	FY21e	FY22e
Sales (₹ m)	18,566	30,969	48,779	45,072	57,415
Net profit (₹ m)	2,510	3,249	4,603	2,762	4,153
EPS (₹)	9.8	12.7	17.9	10.8	16.2
Growth (%)	19.7	29.4	41.7	-40.0	50.3
PE (x)	17.9	12.0	5.2	12.9	8.6
EV / EBITDA (x)	14.2	8.7	2.5	5.9	4.7
PBV (x)	2.5	1.8	0.9	1.3	1.1
RoE (%)	14.9	16.6	19.7	10.3	13.9
RoCE (%)	14.9	19.7	28.6	17.9	21.0
Net debt / equity (x)	0.0	0.0	-0.2	-0.0	0.0

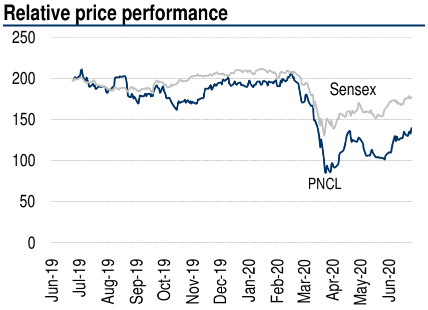
Source: Company, Anand Rathi Research *P- Provisional*

Key data	PNCL IN / PNCI.BO
52-week high / low	₹219 / 80
Sensex / Nifty	35171 / 10383
3-m average volume	$0.3m
Market cap	₹35.7bn / $472m
Shares outstanding	257m

Shareholding pattern (%)	Mar-20	Dec-19	Sep-19
Promoters	56.1	56.1	56.1
- of which, Pledged	-	-	-
Free float	43.9	43.9	43.9
- Foreign institutions	6.4	6.5	6.2
- Domestic institutions	23.8	23.1	23.1
- Public	13.8	14.4	14.6

Estimates revision (%)	FY21e	FY22e
Sales	-20.2	-9.5
EBITDA	-25.4	-10.4
EPS (₹)	-26.8	-8.5

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Order backlog	73,180	1,22,100	86,290	1,11,003	1,28,227
Order inflow	37,374	79,889	11,874	69,645	74,640
Net revenues	**18,566**	**30,969**	**48,779**	**45,072**	**57,415**
Growth (%)	9.9	66.8	57.5	-7.6	27.4
Direct costs	14,129	23,873	36,301	34,665	43,825
SG&A	1,248	2,522	4,835	4,544	5,724
EBITDA	**3,188**	**4,573**	**7,643**	**5,863**	**7,866**
EBITDA margins (%)	*17.2*	*14.8*	*15.7*	*13.0*	*13.7*
Depreciation	772	922	1,264	1,328	1,469
Other income	230	430	885	580	321
Interest expenses	307	641	1,144	1,111	1,134
PBT	2,339	3,440	6,120	4,004	5,584
Effective tax rate (%)	*-7.3*	*5.6*	*24.8*	*31.0*	*25.6*
+ Associates / (Minorities)	-	-	-	-	-
Net income	2,510	3,249	4,603	2,762	4,153
Adjusted income	2,510	3,249	4,603	2,762	4,153
WANS	257	257	257	257	257
FDEPS (₹ / sh)	9.8	12.7	17.9	10.8	16.2

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Share capital	513	513	513	513	513
Net worth	18,067	21,152	25,466	27,939	31,804
Debt	1,697	3,747	3,266	3,046	3,751
Minority interest	-	-	-	-	-
DTL / (Assets)	-1,637	-1,673	-1,215	-1,215	-1,215
Capital employed	**18,128**	**23,226**	**27,517**	**29,771**	**34,340**
Net tangible assets	4,048	6,135	5,865	5,666	5,781
Net intangible assets	16	20	16	9	2
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	111	62	-	-	-
Investments (strategic)	4,948	5,730	6,732	9,532	13,332
Investments (financial)	-	-	623	-	-
Current assets (ex cash)	15,632	20,441	22,252	25,490	31,365
Cash	1,473	3,094	7,401	4,208	2,207
Current liabilities	8,100	12,256	15,371	15,133	18,344
Working capital	7,531	8,185	6,881	10,357	13,020
Capital deployed	**18,128**	**23,226**	**27,517**	**29,771**	**34,340**
Contingent liabilities	23,362	26,620	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
PBT + Net interest expense	2,416	3,651	6,379	4,534	6,398
+ Non-cash items	772	922	1,264	1,328	1,469
Oper. prof. before WC	3,188	4,573	7,643	5,863	7,866
- Incr. / (decr.) in WC	-1,272	653	-1,303	3,476	2,663
Others incl. taxes	-175	171	1,517	1,241	1,431
Operating cash-flow	4,635	3,749	7,429	1,146	3,772
- Capex (tang. + intang.)	1,391	2,964	927	1,123	1,576
Free cash-flow	3,245	785	6,502	23	2,196
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	161	155	309	309	309
+ Equity raised	-	-	-	-	-
+ Debt raised	-1,608	2,013	-23	-220	705
- Fin investments	272	782	1,625	2,177	3,800
- Net interest expense + misc.	85	240	239	510	793
Net cash-flow	1,118	1,621	4,306	-3,193	-2,001

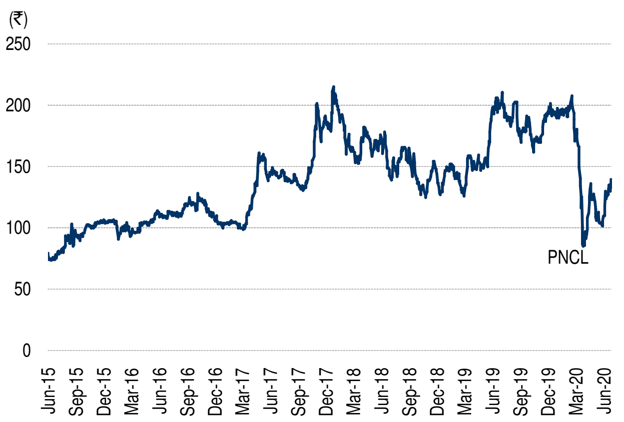
Source: Company, Anand Rathi Research P- Provisional

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
P/E (x)	17.9	12.0	5.2	12.9	8.6
EV / EBITDA (x)	14.2	8.7	2.5	5.9	4.7
EV / Sales (x)	2.4	1.3	0.4	0.8	0.6
P/B (x)	2.5	1.8	0.9	1.3	1.1
RoE (%)	14.9	16.6	19.7	10.3	13.9
RoCE (%)	14.9	19.7	28.6	17.9	21.0
RoIC (%)	16.9	21.0	27.1	15.5	17.3
DPS (₹ / sh)	0.5	0.5	1.0	1.0	1.0
Dividend yield (%)	0.4	0.3	0.7	0.7	0.7
Dividend payout (%) - incl. DDT	6.4	4.8	6.7	11.2	7.4
Net debt / equity (x)	0.0	0.0	-0.2	-0.0	0.0
Receivables (days)	136	73	60	75	75
Inventory (days)	35	48	20	30	30
Payables (days)	91	56	35	44	44
CFO :PAT%	184.6	115.4	161.4	41.5	90.8

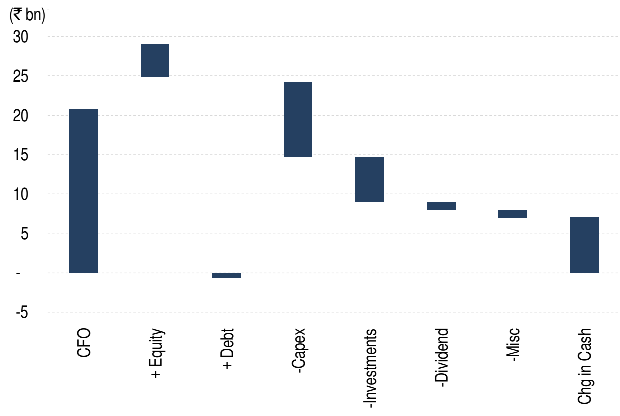
Source: Company, Anand Rathi Research P- Provisional

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Cumulative capital allocation, FY13-20



Source: Company

Result / Concall highlights

- **Revenue growth slowed to high single digits.** Losing out on the execution-heavy last 10 days in Q4 because of the pandemic meant PNC's y/y revenue growth slowed to ~8%. Nevertheless, full-year growth was still an inspiring ~58% y/y, largely because of ~84% y/y growth in the first 9M FY20.
  - The softer Q4 FY20 revenue-growth follows high double-digit/ triple-digit y/y growth in the preceding eight quarters. Median y/y growth for these quarters is estimated at ~93%.
  - The ~5% sequential decline is almost entirely attributable to the disruption caused by the pandemic.
  - FY20 revenue growth was well within management's guided-to range of 50-60%. Were it not for Covid-19, it could have exceeded the guidance.
- **EBITDA margin healthy.** A ~280bp compression in the gross margin (on the project-/job-mix) was mostly made good by contained other operating expenses (as percent of revenue from operations). Consequently, the EBITDA margin was still healthy at ~13.5%, and mostly tracked the core construction margin guidance of 13.5–14%.
  - Aided by the arbitration award booked in earlier quarters, the reported FY20 EBITDA margin (at ~15.7%) far exceeded the guided-to range. Adjusting for this, the margin (at ~13.7%) still falls within the guided-to-range.

Fig 7 – Financial highlights

(₹ m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q	FY19	FY20	% Y/Y
Revenue from Operations	7,355	5,586	7,270	10,757	13,218	11,802	12,180	11,579	7.6	-4.9	30,969	48,779	57.5
EBITDA	1,294	746	1,021	1,512	1,796	2,572	1,712	1,563	3.4	-8.7	4,573	7,643	67.1
EBITDA margins (%)	17.6	13.4	14.0	14.1	13.6	21.8	14.1	13.5	-55bps	-56bps	14.8	15.7	90bps
Interest	107	153	187	194	179	247	401	316	63.1	-21.2	641	1,144	78.5
Depreciation	193	206	241	282	305	309	326	324	14.7	-0.9	922	1,264	37.0
Other income	179	61	68	123	135	447	144	159	30.1	11.1	430	885	105.6
PBT	1,174	448	661	1,158	1,447	2,463	1,128	1,083	-6.5	-4.0	3,440	6,120	77.9
Tax	149	96	187	-241	445	394	356	322	-	-9.7	191	1,517	693.1
PAT	1,025	351	474	1,399	1,001	2,069	771	761	-45.6	-1.4	3,249	4,603	41.7
EPS (₹)	4.0	1.4	1.8	5.5	3.9	8.1	3.0	3.0	-45.6	-1.4	12.7	17.9	41.7

Source: Company

- **Earnings weighed down by rising tax, higher finance cost.** Notwithstanding ~3% y/y higher absolute EBITDA, earnings were pulled down ~46% y/y to ~₹0.76bn. This was due to ~15% y/y higher depreciation (on a further ~₹0.8bn core capex in FY20) to ~63% y/y, higher finance costs (on availing of mobilisation advances) and a ~30% effective tax (against a net reversal the year prior) on waning 80-IA benefits.
  - The higher finance cost is largely because of the decision to draw mobilisation advances available with the Mumbai-Nagpur project. Management says these would be adjusted in an accelerated manner against bills raised.
  - On ~108% y/y growth for 9M FY20, FY20 earnings were up ~42% y/y to ~₹4.6bn.

BOT operations

- **Gross toll collection down y/y.** The pandemic-caused lockdown and the prior sluggish economy led to the gross toll collection declining ~9% y/y to ~₹1.8bn.
  - With the exception of Bareily-Almora, Q4 gross toll collection was down 2–24% y/y for the other operational BOT-toll assets.
  - Gwalior-Bhind was the worst performing asset (~24% y/y less collection; ~6% of the total), followed by Kanpur-Ayodhya (down ~10% y/y; ~49% of the total) and Ghaziabad-Aligarh (~8% y/y lower; ~27% of the total).
  - Assuming a linear daily collection during the quarter, the adjusted comparable gross toll collection (for the toll-suspended days) could have been ~₹2bn (still ~2% y/y lower).
  - For FY20, the ~₹7.4bn gross toll collection was down ~1% y/y, and would have been largely flat y/y if adjusted for the toll-suspended period.

Fig 8 – BOT toll income*

(₹ m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q	FY19	FY20	% Y/Y
Gwalior-Bhind	115	95	128	143	131	105	121	108	-24.5	-10.7	481	465	-3.3
Kanpur-Ayodhya	860	780	963	998	1,024	827	980	900	-9.8	-8.2	3,601	3,731	3.6
Kanpur-Kabrai	289	170	250	239	243	105	178	234	-2.1	31.5	948	760	-19.8
Bareily-Almora	105	90	99	95	99	90	98	99	4.2	1.0	389	386	-0.7
Ghaziabad-Aligarh	524	510	540	530	550	505	543	490	-7.5	-9.7	2,104	2,088	-0.8
Total	**1,894**	**1,645**	**1,980**	**2,005**	**2,047**	**1,632**	**1,920**	**1,831**	**-8.7**	**-4.6**	**7,524**	**7,430**	**-1.2**

Source : Company Excluding two operational annuity assets*

  - Consolidated financials imply the ~₹1.9bn revenues of the BOT-toll/annuity business were down ~19% y/y, and registered a ~53% margin. This includes financials for the two annuity assets, three BOT toll and one toll-collection contract, but excludes the minority-owned Ghaziabad-Aligarh.

Fig 9 – Consolidated financials – Segment highlights

₹m	Q4 FY19	Q4 FY20	% Y/Y	Q3 FY20	% Q/Q	FY19	FY20	% Y/Y
Revenues								
Contract	10,387	11,593	11.6	11,997	-3.4	30,578	48,456	58.5
Toll/Annuity	2,317	1,874	-19.1	1,907	-1.7	7,166	7,569	5.6
Total	**12,704**	**13,467**	**6.0**	**13,904**	**-3.1**	**37,744**	**56,026**	**48.4**
Margins (%)								
Contract	12.0	10.4	-	9.5	-	13.8	8.7	-
Toll/Annuity	47.0	52.9	-	46.3	-	42.9	51.1	-
Blended	**12.5**	**9.7**	**-**	**7.1**	**-**	**9.5**	**12.7**	**-**

Source: Company

  - The FY20 scale of operations required the company to extend stop-gap funding to a couple of its SPVs. These were Bareily-Almora (~₹0.3bn) and Ghaziabad-Aligarh (~₹0.5bn). With the Covid-19 situation dicey and persisting, we see FY21 toll collection as lower than in FY20. Thus, we envisage greater support in FY21. However, management pegs support for Ghaziabad-Aligarh at ~₹0.25bn as sufficing.

Guidance

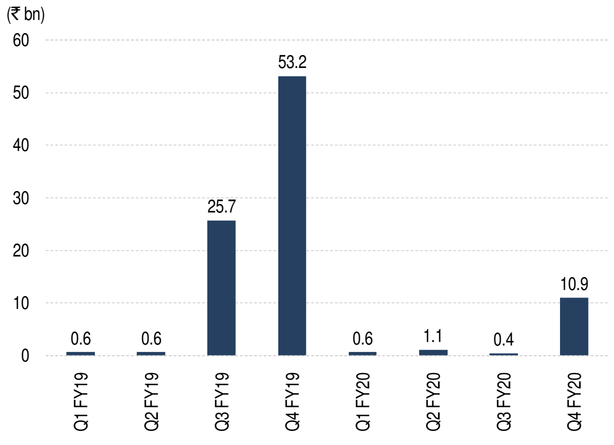
- FY20 core revenue growth was a sturdy ~55% y/y, well within the 50-60% guidance, aided by the strong, ~81% y/y, 9M core revenue growth.
  - While the lockdown affected FY20 in late-Mar'20, its impact continues and is expected to be more pronounced in FY21. Because of the evolving situation, management refrained from guidance for FY21, citing too many variables (labour availability, intensity and geographic spread of rainfall, supply-chain restoration, etc.).
- The FY20 core construction EBITDA margin was ~13.7%, against the guided-to ~13.5–14%. With the continuing fixed costs and envisaged lower scale of operations (on slow H1 FY21), we see FY21 core construction margin to lag secular margin guidance. However, a part of the miss on core margin, we believe, would be made good by the expected ~₹140m early-completion bonus (pending) for Aligarh-Moradabad (expected in H2 FY21).
- The FY20 tax rate at ~31% was in line with the earlier envisaged ~30%. For FY21, the company envisages a ~30-31% tax rate. It seeks to fully utilise in FY21 its pending ~₹1.1bn MAT credit, then shift to the newer tax rate in FY22.
- In Q4, PNC successfully bid for three hybrid annuity projects (aggregate bid project cost: ~₹52bn). These have yet to be appointed and, thus, yet to be included in the firm order backlog. Including their estimated EPC value (~₹41bn) and taking into account the only firmed-up order of FY21 (~₹10.6bn), FY20 inflows are estimated at ~₹52bn. This is against the ~₹60bn-70bn guidance. Management says the pandemic curbed awarding.
  - For FY21, management is looking at orders of a further ~₹70bn. With the recent wins in hybrid annuities, management looks to EPC as the preferred mode.
- Against the FY20 capex guidance of ~₹1.3bn-1.5bn, it incurred capex of only ~₹0.8bn. With this, the gross block rose to ~₹10.9bn, and suffices for ~₹70bn-80bn annual revenues. For FY21, management looks at ~₹0.7bn-0.8bn capex.
- The net working-capital cycle was 57 days on 31st Mar'20, down a sharp 40 days y/y from 97 days. Management doesn't see this, in FY21, rising beyond 70 days.

Inflows / order backlog

- PNC recently bagged four hybrid annuity orders (bid cost: ~₹66bn), three in Q4, one thereafter, with EPC potential estimated at ~₹53bn. Pending appointed dates, these have yet to be included in the firmed-up order backlog. Besides, one of the older projects, the Challakere-Hariyur hybrid annuity project, also awaits an appointed date and, thus, is not yet a part of the OB.
- Firming up of the ~₹10.6bn Lucknow-ring road project in Q4 helped mostly make good work executed during the quarter. Consequently, the end-FY20 OB was down only ~₹0.7bn q/q to ~₹86.3bn. The Mar'20-end-OB implied a book-to-bill of ~1.8x FY20 construction revenues.
  - Including the yet-to-be-appointed ~₹9.3bn Challakere-Hariyur hybrid annuity order and the recently bagged four hybrid annuities (estimated EPC value: ~₹53bn; ~80% of BPC), the gross

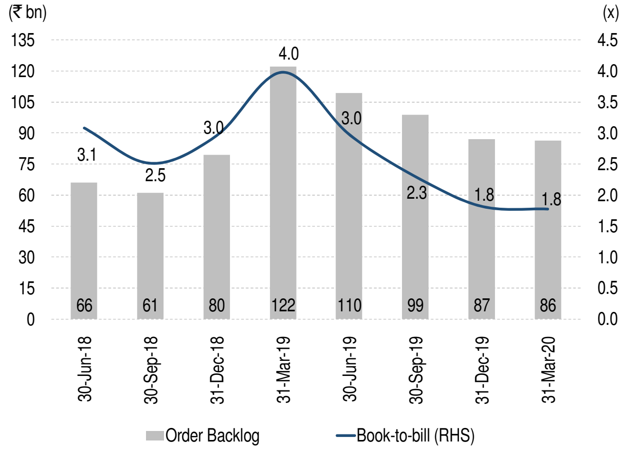
executable backlog jumps to over ₹145bn. The book-to-bill, as a result, jumps to ~3.2x FY20 revenues.

Fig 10 –Only one order of ~₹10.6bn firmed up in FY20; ~₹41bn of Q4 hybrid annuities yet to be firmed up



Source: Company

Fig 11 –End-Mar'20 OB: ~₹86bn; incl. hybrid annuities yet pending appointed dates, OB in excess of ₹145bn



Source: Company

- On future prospects, management is eyeing a bid-pipeline of ~100 EPC and hybrid annuity projects from the NHAI. Most of these were lined up for end-Mar'20, but bid dates were then postponed due to the pandemic.
  - Of the total, management says almost 60 bids are now due in Jul-Aug'20.
  - Ahead, management intends to focus more on EPC opportunities given its recently-bagged four hybrid annuity projects.
  - Management is aiming at bagging orders of ~₹70bn in FY21.
- It sees potential to diversify into segments such as metro-rail (elevated packages), railways and water supply, among others.
  - On the recent large water-supply bids invited by the Uttar Pradesh government, management said it has been closely following these projects and may participate shortly.
  - Though it continues to look at the Railways as well as metro-rail for diversification, no sizeable opportunity to its liking is now available.
- On the Ganga Expressway project by the UPEIDA, management said the project is expected to provide EPC opportunities in ~13 packages, and that the DPR preparation is at advanced stages.
  - It expects tenders for these packages to be floated in H2 FY21, and awaits clarity on the means of financing.
  - On its Purvanchal Expressway packages from the same authority, it has not experienced any issues regarding payments, which have been on time till May'20.

Update on hybrid annuity projects

- **FY20 equity infusion at ~₹2.1bn.** With its recent four successes, PNC's hybrid annuity portfolio is now augmented to eleven projects. Of these, it has received PCOD for one, construction is underway on five, one awaits an appointed date (financial closure attained) and four were bagged very recently (LOAs signed, concession signing awaited).

- **Appointed dates, RoW status.** Of the five hybrid annuity projects where construction has yet to commence, discussion can be under two heads:
    - **The Challakere-Hariyur project.** Management had earlier said agitations by land-owners seeking greater compensation and the change in the state government delayed receipt of the appointed date. The required ~80% RoW is available with the authority, and the appointed date is now expected by mid-Jul'20.
    - **The four recently-bagged projects.** For these hybrid annuity projects, management has ~80% (3G) RoW, and does not anticipate any undue delays in securing appointed dates. It expects to receive appointed dates for all by Sep-Oct'20. It said that disbursements to land-owners in Mar'20 were derailed by the pandemic and are now gradually picking up. 80% (3H) RoW is expected in the next two months.

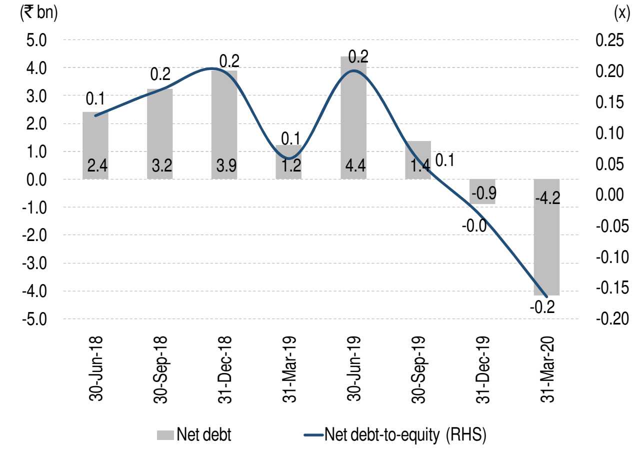
- **Equity infusion.** The equity required, including for the four new hybrid annuity projects, has risen, now pegged at ~₹15bn.
    - **Seven-older assets.** Of its older hybrid annuities, management requires cumulative equity of ~₹8.5bn. Of this, it has infused ~₹4.4bn (in FY20 ~₹2.1bn).
    - **Four newer assets.** Management estimates these recently-bagged projects to entail equity infusion of ~₹6bn.
    - **Infusion schedule.** Of the balance estimated ~₹10bn, management looks to infuse ~₹2.8bn in FY21, ~₹3.8bn in FY22 ~₹1.8bn in FY23, and the balance subsequently.
    - **Financing the infusion needs.** It expects its core operations to yield ~₹17bn in the next three years, more than sufficing for the equity needs for the current projects. This, atop a net-cash position of ~₹4.2bn at end-FY20, gives the company ample headroom to lever judiciously and grow.

- **Attained PCOD on its first hybrid annuity project.** On its earliest hybrid annuity project, the Dausa-Lalsot, the SPV attained 14th Feb'20 as its Provisional Commercial Operations Date and the first semi-annual annuity payment would be due in Aug'20.

Balance sheet

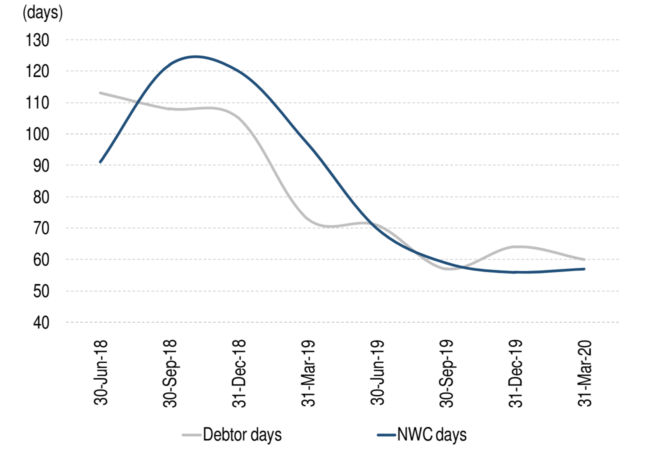
- **Balance sheet further shored up.** A 40-day y/y lower (flat q/q) working-capital cycle meant that operations generate free cash-flows, and, consequently, lead the year-end cash and equivalents exceeding gross debt (of ~₹3.3bn) by ~₹4.2bn. This compares favourably with ~₹1.2bn net debt on 31st Mar'19, and ~₹0.9bn net cash a quarter ago.
    - Strong cash-flow generation meant no need to avail of working capital loans. Thus, the year-end ~₹3.3bn gross debt entirely comprised equipment financing.

Fig 12 – Cash at end-FY20 exceeded gross debt by ~₹4.2bn



Source: Company

Fig 13 – NWC at 57 days, expected to not exceed 70 days ahead



Source: Company

- **Working-capital cycle at 57 days; down 40 days y/y, up a day q/q.** Besides higher mobilisation advances, there were other reasons for the sharp y/y contraction in the working-capital cycle. Sequentially, the four-day lower receivables cycle was more than offset by lower mobilisation advances q/q.
  - In the y/y contraction, fewer inventory days (down 28) were the single largest contributor, and the receivables cycle contributed 12 days to the contraction. Mobilisation advances contributed only two days.
  - Outstanding mobilisation advances were ~₹6.9bn (down from ~₹8.5bn a quarter ago, but y/y up ~₹2.7bn). Subsequent to the quarter, mobilisation advances have further declined to ~₹5.7bn.
  - Ahead, management does not see the working-capital cycle extending beyond 70 days.
- **SPVs' debt up.** On 31st Mar'20, debt at SPVs (incl. Ghaziabad-Aligarh, ineligible for consolidation) was ~₹40.2bn, a ~₹1.8bn net increase q/q on drawdowns by the hybrid annuity projects.
  - For operational assets (incl. the Dausa-Lalsot hybrid annuity project), outstanding debt contracted ~₹0.7bn (net) but drawdowns by the under-construction projects (at ~₹2.5bn) exceeded repayments.
  - Of the total SPV debt, ~₹14.8bn arises from the under-construction hybrid annuity assets, against ~₹12.3bn a quarter ago.
- **Monies extended to related parties.** Management said it extended ~₹0.3bn to Bareily-Almora and ~₹0.5bn to Ghaziabad-Aligarh as stop-gap funding to bridge the cash-flow mismatch in FY20. For FY21, it sees funding needs for the Ghaziabad-Aligarh project not to exceed ~₹0.3bn.

Other highlights

- **Execution in the Covid-19 context.** With the pandemic-caused lockdown curtailing execution at its sites, the pace of execution was disrupted for ~10 days in Q4. At its operational BOT-toll assets, toll collection was suspended from 26th Mar'20. With the gradual lifting of the lockdown, operations are on the way to recovery.
  - With its sites fully mobilised and following the guidelines by the

government, management gradually recommenced execution at all its sites but was faced with challenges from the disrupted supply chain and non-available labour.

- Man-power continues to be a major challenge, says management with only ~70-75% project execution efficiency. Further normalisation is expected as labour returns. This is expected to take another month or two.
- Besides labour non-availability, the skilled-unskilled labour mix is a pressing concern for efficiency to pick up.
- At its operational assets, tolling was resumed from 20th Apr'20 but a ramp-up in collections commenced only from May'20.
- Management pegs traffic at the projects to have largely normalised (~80-90% of pre-Covid levels), driven by commercial traffic. Further recovery in traffic is contingent upon return of passenger vehicles (likely to take some time).
- Management said it would avail of relief measures announced by the government, and has applied for some.
- It said it has outstanding retention monies of ~₹1.1bn and would recoup amounts to the extent of work executed. It further said that the authority is busy getting better clarity and creating a standard operating procedure.
- It has already started receiving payments on a monthly basis against the traditional milestone-based payments (for the Chitradurga-Davanagere project).

- **Ghaziabad-Aligarh monetisation.** The 4th May'19 share-purchase agreement with Cube Highways to monetise its entire 35% stake in Ghaziabad-Aligarh lapsed. The deal was expected to fetch PNC ~₹3bn.
  - The SPA was valid for 12 months from the date of signing, and the inability to close the transaction within the stipulated time led to expiry of the validity.
  - The parties involved decided not to extend the validity, and the deal with Cube Highways now stands terminated
  - Discussions with another suitor are in an advanced stage. With due diligence underway, an outcome is expected in five months.

- **Monetisation of hybrid-annuity assets.** According to management, monetisation efforts were going well, pre-Covid-19. It was in discussions with two or three investors; these are now on hold owing to the wider gap between the bank rate and the MCLR.
  - Management sees the current spread between the bank rate and the MCLR as temporary, and hopes it would narrow in the next six months.
  - It said the widened gap has potential to impact the valuation of its equity invested. It added that investors have provided alternative models of monetisation. The company may consider them.
  - Management seeks to re-commence negotiations once the gap (between MCLR and bank rate) narrows.
  - It added that MoRTH has taken cognisance of the issue, and more clarity is expected on the matter in a month or two.

Earnings revision and Valuation

Owing to pandemic-determined circumstances, the company is likely to lose man-days in FY21. We see a part of this spilling over to FY22. Accordingly, we lower our FY21e and FY22e revenues respectively ~20% and ~10%. To give effect to the negative operating leverage on under-absorption of fixed costs, we slightly lower our FY21e and FY22e margins respectively 92bps and 13bps. The lower operating profitability and negative financial leverage, lead to ~27% lower earnings in FY21. For FY22, earnings would be down ~9%.

Mindful of the altered risk profile, we lower the PE valuation multiple for the EPC business to 9x, from 12x earlier.

Our revised sum-of-parts-based target is derived using a 9x PE multiple for FY22e construction earnings (₹146 a share); the exposure to the asset-ownership has been valued at ₹56 using a mix of DCF (₹22 for operational assets) and equity-invested approaches (₹34 for hybrid annuities). The value of the BOT and hybrid annuity assets has been arrived at after a 20% holding-company discount. The per-share target price works out to ₹202 (from ₹277 earlier).

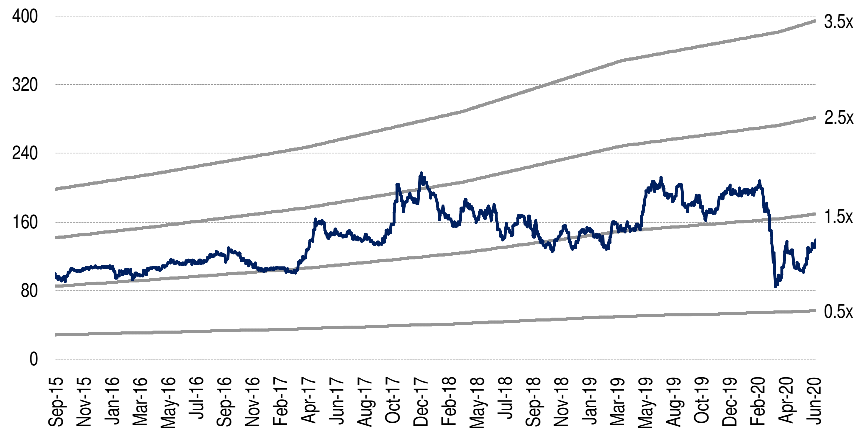
Fig 14 – Estimates revision

(₹ m)	Old Estimates		Revised Estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	56,462	63,446	45,072	57,415	-20.2	-9.5
EBITDA	7,861	8,776	5,863	7,866	-25.4	-10.4
EPS (₹)	14.7	17.7	10.8	16.2	-26.8	-8.5

Source: Anand Rathi Research

At the CMP, excl. investments, the stock quotes at PER of 6.2x FY22e EPS, against the assigned 9x PE multiple. On PBV, it quotes at 1.3x FY21e and 1.1x FY22e, against our target price of ₹202 implied exit PBV of 1.6x.

Fig 15 – PBV band



Source: Bloomberg, Anand Rathi Research

Risks

- Any prolonged impact owing to Covid-19.
- Slower-than-expected pace of project execution.

Appendix

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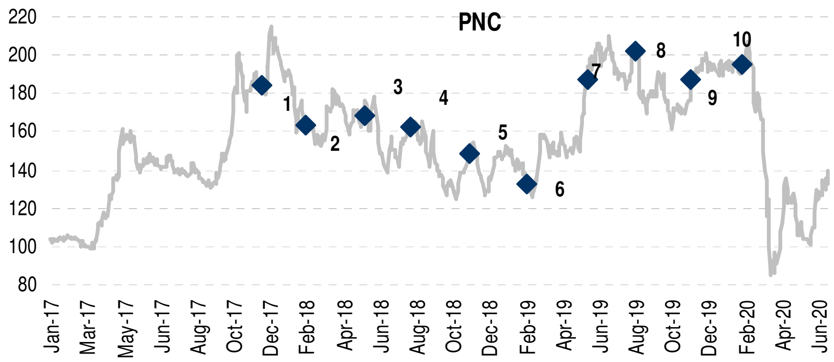
Rating and Target Price History (as of 27 June 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	11-Dec-17	Buy	237	188
2	19-Feb-18	Buy	211	168
3	28-May-18	Buy	219	169
4	10-Aug-18	Buy	213	164
5	17-Nov-18	Buy	194	150
6	18-Feb-19	Buy	199	137
7	28-May-19	Buy	250	187
8	16-Aug-19	Buy	252	204
9	15-Nov-19	Buy	256	188
10	06-Feb-20	Buy	277	196

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