

# PNC Infratech Ltd

BUY

CMP Rs139

Target Rs201

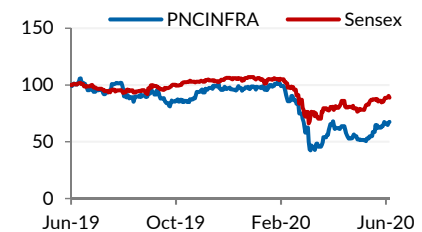
Upside 44.8%

<b>HIGHLIGHTS</b>	<ul style="list-style-type: none"> <li>✓ PNC Infratech (PNC) reported decent set of numbers during Q4 FY20 with standalone revenue growing 7.6% yoy despite COVID-19 related shutdown impacting 10 days of execution during Mar' 20. Its operating margin remained strong at 13.5% (down 55 bps yoy). However, higher interest and tax outgo led to a 45.6% yoy decline in net profit.</li> <li>✓ At the end of Mar'20, PNC's order book stood healthy at Rs.86.3 bn (excluding 5 HAM projects estimated to have EPC value of ~Rs.60 bn). Order inflow target for FY21 stood at ~Rs.70bn.</li> <li>✓ PNC expects appointed date (AD) in Challakere - Hariyur HAM project by mid-July'20 while AD in new 4 HAM projects is expected by Nov'20. ~80% land is currently available in most of the projects.</li> <li>✓ The company has resumed execution in most of its projects and is running at ~75% efficiency level. However, the challenges remain on labour availability.</li> <li>✓ Commercial traffic on its BOT (toll) projects have improved to ~80-90% of the pre-COVID levels. Normalcy is expected from Q2 FY21 onwards.</li> </ul>
<b>Our View</b>	<ul style="list-style-type: none"> <li>✓ We expect execution in FY21 to be flat yoy. The loss of execution during Apr-Jun'20 would be largely covered up by the sharp pickup in execution during H2 FY21.</li> <li>✓ Operating margin is likely to come under pressure during H1 FY21 due to sluggish execution while fixed costs continue.</li> <li>✓ The Order book is in a comfortable position with ~ 3x FY20 revenues. The company was looking initially to enter new segments. However currently the focus would remain on roads.</li> <li>✓ Cancellation of Ghaziabad Aligarh Project deal with Cube Highways (net inflows expected: ~Rs.3bn) to translate effectively into higher fund requirements. Monetization of HAM projects is likely to be delayed due to sharp cut in bank rate while borrowing costs haven't fallen at same proportion.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>✓ With COVID impact on topline and margins, we cut our estimates for FY21 and FY22. However, we believe, the company is well placed to speed up execution as COVID related impact settles.</li> <li>✓ Continued focus on asset monetization and comfortable balance sheet position provide comfort. We maintain our BUY rating on the stock for revised target of Rs.201 (Based on SOTP valuation).</li> </ul>
<b>Risk to our call</b>	<ul style="list-style-type: none"> <li>✓ Slower than expected ramp up in execution.</li> </ul>

## Stock data (as on June 26, 2020)

Sensex:	35,171
52 Week h/l (Rs)	219 / 80
Market cap (Rs/USD mn)	35,659 / 469
Outstanding Shares	257
6m Avg t/o (Rs mn):	40
Div yield (%):	0.4
Bloomberg code:	PNCL IN
NSE code:	PNCINFRA

## Stock performance



	1M	3M	1Y
Absolute return	35.4%	49.1%	-30.8%

## Shareholding pattern (As of Mar'20 end)

Promoter	56.1%
FII+DII	30.2%
Others	13.7%

## Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	17.9	12.7	18.8
EPS (Old)	19.6	16.3	18.2
% change	-8.5%	-21.9%	3.1%

## Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs m)	Q4 FY20	Q4 FY19	yoy(%)	Q3 FY20	qoq (%)
Revenue	11,579	10,757	7.6	12,180	(4.9)
Operating Profit	1,563	1,512	3.4	1,712	(8.7)
OPM (%)	13.5	14.1	-55 bps	14.1	-56 bps
Other Income	159	123	30.2	144	11.1
Depreciation	(324)	(282)	14.7	(326)	(0.9)
Interest	(316)	(194)	63.2	(401)	(21.2)
PBT	1,083	1,158	(6.5)	1,128	(4.0)
Tax	(322)	241	NA	(356)	(9.7)
Reported PAT	761	1,399	(45.6)	771	(1.4)

Source: Company, YES Sec - Research

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## CONCALL HIGHLIGHTS

- ✓ Performance during Q4 FY20 got impacted by COVID-19 related execution shutdown during last 10 days of Mar'20. Currently, PNC has resumed execution in most of its projects and is running at ~75% efficiency level. However, the challenges remain majorly on labour availability. With ongoing uncertainty, the management has refrained from giving guidance.
- ✓ As per the management, commercial traffic (mainly contributing to the toll revenues) on its BOT (toll) projects has currently improved to ~80-90% of the pre-COVID levels and expects normalcy from Q2 FY21 onwards. Passenger traffic, however, remains subdued.
- ✓ The company has booked early completion bonus of ~Rs.1.1bn during FY20 (Rs.253mn during FY19).
- ✓ The order book at the end of Mar'20 stood at Rs86.3bn which excludes a) Challakere - Hariyur HAM project (BPC: Rs.11.6bn; EPC value: Rs.9.4bn), b) Unnao Lalganj section HAM project in UP (BPC: Rs.16bn), c) Jagdishpur Faizabad Section HAM project in UP (BPC: Rs.15.3bn), d) Aligarh- Kanpur Section HAM project in UP (BPC: Rs.20.5bn) and e) Meerut Nazibabad section HAM Project in UP (BPC: Rs.14.1bn). The total order book (including estimated EPC value of five HAM projects) stood at ~Rs.150bn.
- ✓ The management expects AD in Challakere - Hariyur HAM project by mid-July'20 while AD in new 4 HAM projects is expected by Nov'20. ~80% land is currently available in most of these projects.
- ✓ The company is targeting order inflows of ~Rs.70bn during FY21. The key focus to remain on Road segment with some inflows likely from other infrastructure segments.
- ✓ Out of its total equity requirement of ~Rs.8.5bn in seven HAM projects, the company has infused equity of ~Rs.4.4bn in the existing HAM projects and rest equity portion is likely to get infused over next two years. Additionally, the equity requirement would be ~Rs.6bn towards new four HAM projects.
- ✓ During May'19, PNC had executed SPA for divestment of its stake in Ghaziabad Aligarh Road Project with Cube Highways and Infrastructure. The deal was subject to the fulfilment of certain closure conditions (within period of 12 months from the date of signing the agreement). However, it got lapsed with validity expiring before the closure of the deal. It is currently in dialogue with other potential investors.
- ✓ The company was in the various stage of discussions with 3-4 investors for monetization of certain HAM projects, but currently the talks are on hold due to sharp decline in bank rate with no proportionate decline in borrowing rate. This would impact the project returns and Company has discussed the issue with the authorities. The monetization is unlikely to happen during FY21.
- ✓ The company has incurred capex of Rs.780mn during FY20 and the gross block at the end of FY20 stood at ~Rs.11bn, sufficient to execute projects worth Rs.70bn in a year. The management has guided for Rs.750mn capex for FY21E.
- ✓ With available MAT credit of ~Rs.1.1bn, the effective tax rate for FY21 is expected at 30%. The company would opt for new tax regime in FY22E where tax rate would fall to ~25%.

## Exhibit 2: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenues	30,969	48,779	47,804	60,233
yoy growth (%)	66.8	57.5	(2.0)	26.0
Operating profit	4,574	7,643	6,708	8,603
OPM (%)	14.8	15.7	14.0	14.3
Reported PAT	3,249	4,603	3,267	4,813
yoy growth (%)	29.4	41.7	(29.0)	47.3
EPS (Rs)	12.7	17.9	12.7	18.8
P/E (x)	11.0	7.7	10.9	7.4
EV/EBITDA (x)	7.7	3.9	5.1	3.8
Debt/Equity (x)	0.1	0.1	0.1	0.1
RoE (%)	16.6	19.7	12.1	15.6

Source: Company, YES Sec - Research

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