

July 13, 2020

Challenging times...

The Q1FY21E earnings for the construction as well as real estate universe will be one of the weakest in recent memory. For construction companies, near insignificant work in April followed by labour unavailability and supply chain issues in May and June is likely to plague execution. We note that labour availability at overall level continues to be at ~50-70% across projects even in June. With the onset of monsoon, execution pickup is only likely by H2FY21E. For real estate companies, amid stable commercial segment, the pain will be largely felt owing to rental waiver for lockdown period, near non-operational hospitality portfolio, weak residential volume offtake and overall weakness in execution due to labour issues.

Real estate: Pain across residential, retail & hospitality

We anticipate Covid-19 led lockdown to impact demand residential real estate leading to lower sales volumes in Q1FY21E. We, however, note that Bengaluru-based players have shown some resilience in sales volumes and pain may be more pronounced in MMR region residential sales. For Brigade, we expect residential sales volumes to decline ~55% YoY to 5.1 lakh sq ft with April, May first week being a complete washout. For Oberoi, we expect sales volumes to be sharply impacted in Q1FY21E, including at Borivali project, which was doing well. On the leasing front, new leasing activity is likely to be impacted and may see some delay. However, commercial rental of operational assets is largely insulated. The worst hit segment is likely to be hospitality (low double digit occupancy at lower realisation leading to losses in division) with sharp decline in retail rental due to malls closure and subsequent 50% rental waiver given by developers for lockdown period and few months thereafter.

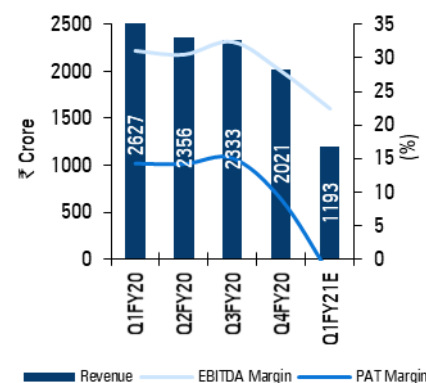
For Kajaria, we expect sales volumes to be sharply hit by the nationwide lockdown and lower demand for ceramic due to the discretionary nature of the product as well near lockdown situation in key metro cities. Hence, we expect Kajaria's sales volume to de-grow 50.9% YoY to 9.7 MSM in Q1FY21E. On the revenue front, we expect it to de-grow ~50% YoY to ₹ 353.1 crore mainly impacted by volume decline. Notwithstanding, gas price decline (~10% QoQ) and cost cuts taken by the company, negative operating leverage will hit operating profit the most. We expect EBITDA margins to contract 560 bps QoQ to 9.5%.

Infrastructure: Labour availability to hit execution

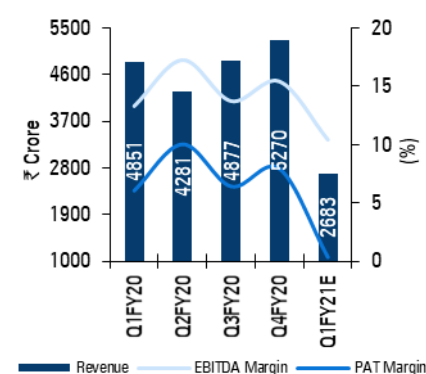
A mixed trend was seen for order inflows across the construction universe. NCC has announced order inflows worth ₹ 2532 crore in Q1 with majority of the inflows in the water segment. PNC has won a HAM project for Meerut-Nazibabad stretch worth ₹ 1412 crore, in Q1FY21. KNR has received two irrigation projects worth ₹ 2309 crore from the irrigation & CAD department, Government of Telangana in May, 2020. Ashoka Buildcon, on the other hand, signed an EPC agreement for Tumkur-Shivamogga package-III worth ₹ 602 crore, in May 2020.

On the execution front, we expect near negligible execution in March followed by sub-optimal labour availability of ~40-60% during April, May, 2020 to impact execution sharply for all the companies. The exception is likely to be KNR that is expected to report relatively resilient revenues (~9.5% YoY decline) given the benign base and execution in irrigation projects. On an overall basis, we expect our road & construction universe to post revenue de-growth by 44.7% YoY to ₹ 2683 crore. The EBITDA margin of our universe is expected to contract 290 bps YoY to 10.4%, given the negative operating leverage. Overall, we expect our universe PAT to de-grow 96.9% YoY to ₹ 9.2 crore in Q1FY21E with weakness in operating performance exacerbated by interest costs.

Topline & Profitability (Real Estate Universe)



Topline & Profitability (Infra Universe)



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Exhibit 1: Estimates for Q1FY21E: (Real Estate & Building Material) (₹ crore)

Company	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ
Oberoi Realty	313.5	-48.0	-6.0	94.0	-60.0	-29.5	27.7	-81.8	-65.9
The Phoenix Mills	174.3	-71.7	-56.4	69.8	-76.2	-65.9	-31.4	PL	PL
Brigade Enterprises	351.9	-50.4	-44.7	70.3	-61.4	-48.0	-31.0	PL	PL
Kajaria Ceramics	353.1	-49.6	-45.9	33.7	-68.2	-63.9	7.1	-86.1	-85.7
Total	1,192.7	-54.6	-41.0	267.8	-67.2	-52.7	-27.6	PL	PL

Source: Company, ICICI Direct Research * Oberoi is yet to report Q4 numbers

Exhibit 2: Company Specific Views (Real Estate)

Company	Remarks
Oberoi Realty	<p>Amid the nationwide lockdown, we expect sales volumes to be sharply impacted in Q1FY21E, including at Borivali project that was doing well. Furthermore, it is likely to witness a sharp decline in revenue on account of rental waiver for lockdown period, non-operational hospitality portfolio and overall weakness in execution due to labour issues. On the financial front, we expect topline to de-grow 48% YoY to ₹ 313.5 crore on account of lower real estate revenue recognition and impact on mall and hospitality portfolio. Overall, we expect ORL net income to decline 81.8% YoY at ₹ 27.7 crore in Q1FY21E.</p> <p>Key Monitorable: Progress on annuity portfolio, commentary on sales volumes, progress on new launches such as Thane & Exquisite-III in Goregaon</p>
The Phoenix Mills	<p>We expect Phoenix Mills' (Phoenix) revenues to de-grow 71.7% YoY to ₹ 174.3 crore on account of weak residential real estate segment (nil expected to be recognised in the quarter vs. ₹ 207.1 crore recognised in Q1FY20) and impact on retail and hospitality portfolio due to waiver and near closure, respectively. On the core portfolio front (retail, commercial and hospitality business), we expect revenues to de-grow 42.7% YoY since retail and hospitality segments are expected to be impacted the most amid rental waiver offer by the company for malls during lockdown and insignificant occupancy in hospitality segment. The EBITDA margin is expected to contract 760 bps to 40% in Q1FY21E. At the PAT level, we expect losses given the sharp decline in operating profit.</p> <p>Key Monitorable: Outlook on business and status of operations post lockdown lifting</p>
Brigade Enterprises	<p>Some Bengaluru-based real estate players have shown some resilience in residential sales volumes despite the impact of the lockdown. With this, we expect BEL's sales volumes to decline ~55% YoY to 5.1 lakh sq ft with April and May first week being complete washout. On the financial front, with lower residential revenues recognition, we expect the topline to de-grow 50.4% YoY to ₹ 351.9 crore, also impacted by lockdown effect on hospitality and mall portfolio. Overall, at the PAT level, we expect losses given the sharp decline in operating profits</p> <p>Key Monitorable: Outlook on business and status of operations post lockdown lifting</p>
Kajaria Ceramics	<p>We anticipate Kajaria's sales volumes to be sharply hit by the nationwide lockdown and lower demand for ceramic due to the discretionary nature of the product as well near lockdown situation in key metro cities. Hence, we expect Kajaria's sales volume to de-grow 50.9% YoY to 9.7 MSM in Q1FY21E. On the revenue front, we expect it to de-grow ~50% YoY to ₹ 353.1 crore mainly impacted by volume decline. Notwithstanding, gas price decline (~10% QoQ) and cost cuts taken by the company, negative operating leverage will hit operating profit the most. We expect EBITDA margins to contract 560 bps QoQ to 9.5%. Overall, we expect the bottomline to see a decline of ~86% YoY to ₹ 7.1 crore.</p> <p>Key Monitorables: Management commentary on sector outlook, commentary on gas pricing and product pricing dynamics in the industry</p>

Source: Company, ICICI Direct Research

Exhibit 3: Real Estate Coverage Universe

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
Oberoi Realty (OBEREA)	367	450	Buy	13,348	22.5	14.5	21.2	16.3	25.4	17.3	7.8	11.6	9.4	1.3	1.3	1.2	10.1	6.1	6.8
The Phoenix Mills (PHOMIL)	593	685	Buy	9,100	27.5	21.9	3.5	21.6	27.1	169.4	12.6	13.4	24.7	2.5	2.3	2.3	10.7	8.8	1.4
Brigade Enterprises (BRIENT)	141	180	Buy	2,881	11.7	6.4	-1.5	12.0	22.0	NA	8.3	9.9	12.9	1.4	1.3	1.3	11.1	5.7	NM
Kajaria Ceramics (KAJCER)	391	395	Hold	6,209	14.2	16.1	9.3	27.4	24.2	42.0	13.5	14.7	19.2	4.0	3.6	3.4	14.4	14.9	8.1

Source: Company, Bloomberg, ICICI Direct Research

Exhibit 4: Estimates for Q1FY21E: (Roads & Construction) (₹ crore)

Company	Revenue			EBITDA			PAT		
	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ
Ashoka Buildcon	549.9	-37.3	-56.2	44.0	-59.8	-80.8	18.1	-72.0	-89.0
PNC Infratech	649.7	-50.8	-43.9	58.5	-67.4	-62.6	5.9	-94.2	-92.3
NCC	1,062.9	-51.4	-51.3	101.4	-62.0	-63.8	-35.5	PL	PL
KNR Construction	420.6	-9.5	-37.7	75.7	-15.9	-48.5	20.7	-56.6	-69.2
Total	2,683.1	-44.7	-49.1	279.6	-56.7	-65.6	9.2	-96.9	-97.8

Source: Company, ICICI Direct Research

Exhibit 5: Exhibit 2: Company Specific Views (Roads & Construction)

Company	Remarks
Ashoka Buildcon	<p>Execution was impacted owing to nationwide lockdown in most parts of April, while labour issues lingered on in May and June. Hence, we expect revenues to decline sharply by 37.3% YoY to ₹ 549.9 crore in Q1FY21E. EBITDA margins are expected to contract by 450 bps YoY to 8%, given lower fixed cost absorption at current execution. We expect PAT to de-grow 72% YoY to ₹ 18.1 crore on account of topline and margin pain.</p> <p>Key Monitorable: Management commentary on execution ahead and status on monetisation of Ashoka Concessions</p>
NCC Ltd	<p>Labour and lockdown effect in April will haunt execution rate for NCC in Q1. Hence, we expect topline to de-grow 51.4% YoY to ₹ 1062.9 crore. EBITDA margin is expected to contract 260 bps YoY to 9.5% due to negative operating leverage. Overall, losses are expected at PAT level. Key Monitorable: Management commentary on order inflows, execution, status on Andhra Pradesh orders, receivables and net debt</p>
PNC Infratech	<p>Notwithstanding existing execution across the HAM projects, the impact of lockdown and labour availability issues are likely to result in sharp topline decline of ~51% to ₹ 649.7 crore. EBITDA margins are expected at 9%, down 460 bps YoY. PAT is expected to de-grow by ~94% YoY to ₹ 5.8 crore given the overall operational pain.</p> <p>Key Monitorable: Management commentary on order inflows, progress on HAM projects</p>
KNR Constructions	<p>Overall revenues impact is expected to be the least owing to a) benign base of ~17% decline in Q1FY20 and b) execution in the irrigation project. Hence, we expect revenues to de-grow 9.5% YoY to ₹ 420.6 crore. EBITDA margin is expected to contract 140 bps YoY to 18%. Overall, we expect bottomline to grow 56.6% YoY to ₹ 20.7 crore due to EBITDA margin contraction, higher interest expenses and higher depreciation.</p> <p>Key Monitorable: Land acquisition status on balance HAM projects</p>

Source: Company, ICICI Direct Research

Exhibit 6: Road Coverage Universe

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			/EBITDA (x)			P/B (x)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
KNR Constructions (KNRCON)	207	240	Buy	2,914	18.7	16.0	10.0	11.2	13.1	20.9	7.4	6.4	8.1	2.1	1.8	1.7	18.6	13.9	8.0
PNC Infratech (PNCINF)	145	175	Buy	3,722	12.7	17.9	11.9	11.4	8.1	12.2	8.0	4.1	5.6	1.7	1.4	1.3	15.0	18.1	10.7
Ashoka Buildcon (ASHBUI)	62	60	Hold	1,743	-1.2	5.9	-3.8	NA	10.7	NA	5.0	4.3	5.2	5.8	4.0	5.4	NM	40	NM
NCC (NAGCON)	33	27	Hold	2,887	9.4	6.3	3.1	3.5	5.2	10.6	2.3	3.1	3.8	0.1	0.2	0.2	11.9	7.5	3.5

Source: Company, ICICI Direct Research, Reuters

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