

PNC Infratech Limited

BUY

CMP Rs169

Target Rs212

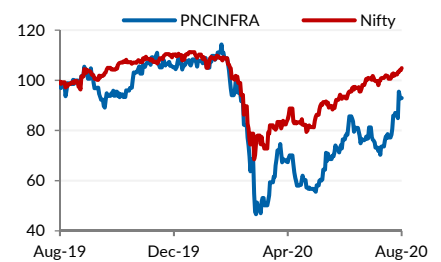
Upside 25.3%

HIGHLIGHTS	
✓	PNC Infratech has reported better-than-expected performance during Q1 FY21 (considering covid-19 related impact). Its revenue declined 31.5% yoy (to Rs.9.1bn) on standalone basis, largely impacted by operational shutdown during initial 20 days of Apr'20. Also, labor issues and disrupted supply-chain, and early onset of monsoon impacted execution pace.
✓	Operating margin remained healthy at 13.2%. However, PAT declined 40% yoy to Rs.601mn largely due to subdued revenue.
✓	Labor strength across project sites have currently improved to ~90% of the pre-covid levels. However, execution is getting impacted with heavy monsoon and currently running at ~60% efficiency levels. Normalization in operating activities is expected during H2 FY21.
✓	At the end of Jun'20, PNC's order book stood at Rs.77.6bn (excluding 5 HAM and 2 EPC projects estimated to have EPC value of Rs.77.6 bn). Including these projects, the order book stands robust at ~Rs.155bn (3x FY20 revenues).
✓	The order pipeline from NHA side remains strong at ~Rs.500bn. The management has guided for ~Rs.70bn of order inflows during FY21E (already secured orders worth ~Rs.30bn during YTD FY21).
✓	PNC expects appointed date (AD) in Challakere - Hariyur HAM project by Oct'20 while AD in new 4 HAM projects is expected by Jan'20. ~80% land is currently available in most of the projects.
Our View	
✓	Execution pace is likely to witness sharp improvement during H2 FY21 with better labour/raw material availability and more projects coming under execution. Operating margin to remain at ~13%.
✓	The order book is in a comfortable position with ~ 3x FY20 revenues. The company was looking initially to enter new segments. However, the major focus would remain on roads (EPC and HAM) segment.
✓	Any significant progress on monetization of BOT projects to translate into better balance sheet position.
Valuation	
✓	With COVID impact and weak near-term outlook, we have reduced our topline estimates marginally for FY21. However, the company is well placed to speed up execution as COVID related impact settles.
✓	Recent order inflows, continued focus on asset monetization and comfortable balance sheet position provide comfort. We maintain our BUY rating for revised target of Rs.212.
Risk to our call	
✓	Slower than expected ramp up in execution.

Stock data (as on Aug 28, 2020)

Nifty	11,648
52 Week h/l (Rs)	215 / 80
Market cap (Rs/USD mn)	43432 / 592
Outstanding Shares (mn)	257
6m Avg t/o (Rs mn):	34
Div yield (%):	0.3
Bloomberg code:	PNCL IN
NSE code:	PNCINFRA

Stock performance



	1M	3M	1Y
Absolute return	21.7%	67.1%	-5.6%

Shareholding pattern (As of Jun'20 end)

Promoter	56.1%
FII+DII	30.7%
Others	13.2%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	17.9	11.1	17.8
EPS (Old)	17.9	12.7	18.8
% change	-	-12.6%	-5.1%

Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs m)	Q1 FY21	Q1 FY20	yoy(%)	Q4 FY20	qoq (%)
Revenue	9,053	13,218	(31.5)	11,579	(21.8)
Operating Profit	1,198	1,796	(33.3)	1,563	(23.4)
OPM(%)	13.2	13.6	-36 bps	13.5	-27 bps
Other Income	191	135	41.6	159	19.9
Depreciation	(270)	(305)	(11.4)	(324)	(16.5)
Interest	(253)	(179)	41.2	(316)	(20.1)
PBT	866	1,447	(40.2)	1,083	(20.0)
Tax	(265)	(445)	(40.5)	(322)	(17.7)
Reported PAT	601	1,002	(40.0)	761	(21.0)

Source: Company, YES Sec - Research

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CON-CALL HIGHLIGHTS

- ✓ PNC's topline performance in Q1 FY21 got impacted by COVID-19 related execution shutdown mainly during initial 20 days of Apr'20. Also, migration of labor, disrupted supply-chain, and early onset of monsoon impacted execution pace. However, the company has managed to maintain its operating margin at ~13% with better project mix.
- ✓ Labor strength across project sites have currently improved to ~90% of the pre-covid levels. However, operations are getting impacted with heavy monsoons and running at ~60% efficiency levels. Considering the revenue loss during H1 FY21 (owing to covid-19 disruptions/heavy monsoon; execution likely to normalize in H2 FY21), the management has guided for ~10% yoy de-growth in topline during FY21E.
- ✓ As per the management, commercial traffic (mainly contributing to the toll revenues) on its BOT (toll) projects has currently improved to ~90% of the pre-COVID levels and expects normalcy from Oct'20.
- ✓ The order book at the end of Jun'20 stood at Rs.77.6bn which excludes a) Challakere-Hariyur HAM project (BPC: Rs.11.6bn), b) Unnao-Lalganj HAM project (BPC Rs.16.2bn), c) Jagdishpur-Faizabad HAM project (BPC: Rs.15.3bn), d) Aligarh- Kanpur HAM project (BPC: Rs.20.5bn), e) Meerut Nazibabad section HAM project (BPC: Rs.14.1bn) and f) Delhi - Vadodara Greenfield Alignment EPC project (2 packages having value: Rs.15.5bn). Including these projects, the order book stands at ~Rs.155bn.
- ✓ As per the management, awarding activity from NHAI side is gradually picking-up and ~Rs.500bn worth of projects (25/18 projects under EPC/HAM respectively) are under various stages of bidding (to be submitted by Sept'20-end). The company is targeting total order inflows of ~Rs.70bn during FY21. The key focus to remain on Road segment (EPC) with some inflows likely from other infrastructure segments (has submitted bid for 3 water projects having cumulative value of ~Rs.5.7bn).
- ✓ Out of its portfolio of 11 HAM projects, 6 projects are under constructions (COD in 4 projects likely in FY21), while remaining 5 projects are awaiting AD. The management expects AD in Challakere - Hariyur HAM project by Oct'20 while AD in new 4 HAM projects is expected by Jan'20. ~80% land is currently available in most of these projects.
- ✓ Out of its total equity requirement of ~Rs.8.5bn in seven HAM projects, the company has infused equity of ~Rs.4.7bn in the existing HAM. Additionally, the equity requirement would be ~Rs.6bn towards new four HAM projects. The management has guided for Rs.2.6bn/Rs.4.3bn/Rs.1.5bn towards equity requirement during remaining period of FY21E/FY22E/FY23E respectively.
- ✓ 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. Currently, the company is under discussions with another prospective investor, who has evinced interest in the project asset. Accordingly, due diligence process is underway and finalization of deal is likely over next two-three months.
- ✓ The company is actively looking to monetize certain HAM projects, but currently the talks with investors are on hold due to sharp decline in bank rate with no proportionate decline in borrowing rate. The Company is looking at a structured deal to deal with this issue.
- ✓ The company has achieved PCOD for Aligarh-Moradabad project; 73 days ahead of schedule and expects receipt of bonus by Q3 FY20.

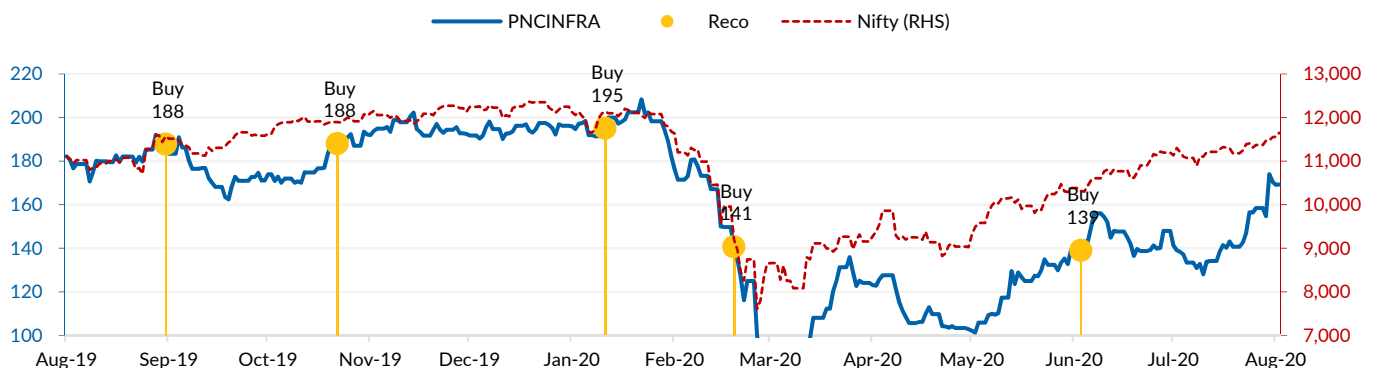
- ✓ Net Working Capital Days has increased to 84 days mainly due to sharp jump in debtor days (delay in receipts owing to temporary closure of client offices). However, the management expects net working capital days to stabilize at ~70 days with normalization of current situations.
- ✓ Gross standalone debt at the end of Jun'20 stood at Rs.3.3bn while cash and cash equivalent stood at 6.7bn.
- ✓ The company has repaid some portion of mobilization advance (Rs.3.5bn at the end of Jun'20), which has translated into lower finance expense during Q1 FY21. However, mobilization advance is likely to increase by FY21-end post receipt of Appointed date in pending HAM projects.
- ✓ Capex is likely to be Rs.1.2bn during FY21E. Also, the effective tax rate for FY21E/FY22E is expected at 34% with available MAT credit of ~Rs.94bn.

Exhibit 2: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenues	30,969	48,779	45,365	63,057
yoy growth (%)	66.8	57.5	(7.0)	39.0
Operating profit	4,574	7,643	6,349	9,179
OPM (%)	14.8	15.7	14.0	14.6
Reported PAT	3,249	4,603	2,847	4,577
yoy growth (%)	29.4	41.7	(38.1)	60.8
EPS (Rs)	12.7	17.9	11.1	17.8
P/E (x)	13.3	9.4	15.2	9.5
Price/Book (x)	2.0	1.7	1.5	1.3
EV/EBITDA (x)	9.4	4.9	6.6	4.8
Debt/Equity (x)	0.1	0.1	0.1	0.1
RoE (%)	16.6	19.7	10.6	15.1

Source: Company, YES Sec – Research

Recommendation Tracker



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