

# Infrastructure

## Jan-Mar'21 Earnings Preview

April 6, 2021

### Key investment rationale on Top Picks:

#### PNC Infratech

- Comfortable order book position
- Timely foray into water infra with major order inflows in FY21
- Comfortable leverage position

#### HG Infra Engineering

- Transition into full fledge contractor
- Robust order inflows leading to comfortable order book-to-sales
- Lean balance sheet despite exposure to HAM portfolio

#### Capacit'e Infraprojects

- Robust order book with strong clientele
- Strong beneficiary from the ongoing upcycle in real estate sector
- Large public sector projects to drive strong revenue growth

### Broad based recovery in 4Q

*We expect strong execution in Q4FY21 for our infra coverage universe with expected revenue growth of 22.2% YoY (average) vs 6.1% in Q3FY21. Operating leverage will enable stable EBITDA margins despite inflationary environment. Adjusted PAT is expected to increase by 87.5% YoY led by lower base, better operational efficiencies and lower interest rates.*

*We continue to prefer companies with strong balance sheet, controlled debt levels, good corporate governance, sustained working capital cycle and high book to bill ratio, as they will gain from ongoing awarding momentum. Key monitorables are impact of ongoing second wave of Covid-19 in states like Maharashtra, pace of execution, awarding momentum and working capital levels. Our top picks are PNC Infratech, HG Infra and Capacite Infra.*

**Broad based recovery across parameters:** 4Q would primarily be driven by a) sharp uptick in execution with labour force and supply chain at pre-covid levels, b) robust awarding in roads, water infra, urban infra and healthcare, c) timely payments from Govt. authorities and private sector clients, d) upcycle in real estate with key markets like MMR, Pune, Bangalore, NCR eyeing surge in registrations and new launches being lined up and e) continued uptick in toll collection backed by V-shaped economic recovery and smooth implementation of Fastag.

**Awarding momentum remains strong:** Despite the pandemic, healthy ordering across segment led our coverage universe to bag orders worth Rs164bn in 4Q (Rs540bn in FY21). With robust awarding, most players have a strong order book (OB-to-sales at an average ~3.7x TTM revenues) giving strong revenue visibility over next 2-3 years.

#### Exhibit 1: 4QFY21E YoY growth (%)

Company	Sales	EBITDA	PAT
Ahluwalia Contracts (India)	13.6	94.6	240.4
Ashoka Buildcon	1.2	(21.1)	(19.4)
Capacite's Infraprojects	27.6	35.4	494.9
H.G. Infra Engineering	21.0	18.8	29.7
IRB Infrastructure Developers	6.5	18.5	(51.1)
ITD Cementation India	34.8	7.8	(13.6)
J.Kumar Infraprojects	3.7	40.3	83.1
KNR Constructions	11.6	2.5	37.7
NCC	13.3	(2.0)	(19.0)
PNC Infratech	44.8	51.2	92.5
Sadbhav Engineering	65.9	70.4	NA
<b>Average</b>	<b>22.2</b>	<b>28.8</b>	<b>87.5</b>

Source: Company, PL

**Robust outlook laid by NIP and Budget '21 to drive the sector:** Robust plan laid by the NIP got a further boost with massive budget allocation across sectors including Roads, Railways, Water Infra and Urban Infra; 26% YoY growth in capital expenditure for FY22E. **With NHAI's awarding pipeline of over 13,400km (over 2-3 years), several upcoming Metro projects, massive projects coming up in Irrigation & Water Infra space, awarding momentum is expected to sustain in FY22E.**

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**Exhibit 2: Order Inflows during 4QFY21 for our coverage universe**

Company	Month	Project Details	Client	Type of Project	Order Value (Rs mn)
AHLU IN	Mar-21	Construction of State Guest House in Bodh Gaya	Building Construction Dept, Patna	EPC	1,280
<b>Total</b>					<b>1,280</b>
ASBL IN	Jan-21	Construction of 150MW Solar PV project	NTPC Renewable Energy Ltd	EPC	5,023
<b>Total</b>					<b>5,023</b>
HGINFRA IN	Feb-21	Transportation of 26.41 lakh Cu.M. of Pond Ash from NTPC Ramagundam to NHAI-PIU Mancherla road construction project (Design Length 42KM)	NTPC	EPC	950*
	Mar-21	Construction of four lane greenfield highway between Khammam-Devarapalle (length 33.6 km) in Telangana	NHAI	HAM	7,721*
	Mar-21	construction of four lane greenfield highway between Khammam-Devarapalle (length 29.5 km) in Telangana	NHAI	HAM	6,371*
	Mar-21	Construction of 31.8km six lane highway of Aluru-Jakkuva section of NH 130-CD, a part of Raipur-Vishakhapatnam Economics Corridor	NHAI	HAM	10,601*
<b>Total</b>					<b>25,643</b>
IRB IN	Mar-21	Six laning of 68.4km section from Palsit to Dankuni in West Bengal	NHAI	BOT (Toll)	24,210
	Mar-21	Upgrading 28.7km stretch of Pathankot-Mandi section of NH20 to four-lane in Himachal Pradesh	NHAI	HAM	8,280
<b>Total</b>					<b>32,490</b>
KNRC IN	Jan-21	Upgradation of Cheyyur – Vandavasi Polur Road (SH-115) to two-lane highway (design length 109.3Km)	Project Director Chennai-Kanyakumari IC	EPC	6,036
	Mar-21	Four laning of 48.5km stretch on Bangalore-Mangalore section from Periya Shanti to Bantwal and includes a 6-lane flyover in Karnataka	NHAI	EPC	11,009
	Mar-21	Six laning of Ramanattukara Junction to start of Valanchery bypass section of NH-66 (old NH-17)	NHAI	HAM	21,166
	Mar-21	Six laning of Valanchery Bypass to Kappirikkad Section of NH-66 (Old NH-17)	NHAI	HAM	19,112
<b>Total</b>					<b>57,323</b>
NJCC IN	Jan-21	Orders pertaining to Water & Environment division	State/ Central Govt Agency	EPC	6,070
	Jan-21	Orders pertaining to Buildings division	State/ Central Govt Agency	EPC	5,930
	Mar-21	One order pertaining to Irrigation division	State Govt Agency	EPC	3,420
	Mar-21	One orders pertaining to Buildings division	State Govt Agency	EPC	1,880
<b>Total</b>					<b>17,300</b>
PNCL IN	Jan-21	Survey, design, preparation of DPR, construction, commissioning and O&M for 10 years of Rural Water supply in 2,475 villages in Uttar Pradesh	Namami Gange & Rural Water Supply Dept, Govt of UP	EPC	24,750
<b>Total</b>					<b>24,750</b>
<b>Total Order Inflows in 4QFY21</b>					<b>1,63,809</b>

Source: Company, PL; Note(\*): HGInfra is declared L-1 in above 4 projects

**Exhibit 3: Q4FY21 Result Preview**

Company Name		Q4FY21E	Q4FY20	YoY gr. (%)	Q3FY21	QoQ gr. (%)	Remark
<b>Ahluwalia Contracts (India)</b>	Sales	6,237	5,492	13.6	5,361	16.3	We expect revenues to grow by ~13.6% YoY with execution picking up across project sites. EBITDA margins expected to expand YoY due to higher provisions/write offs last year. The company bagged projects worth Rs1.3bn during the quarter. Requirement of further provisions, awarding momentum and pickup in execution of new projects would be key monitorables.
	EBITDA	447	230	94.6	317	41.0	
	Margin (%)	7.2	4.2		5.9		
	PBT	272	77	255.5	199	36.7	
	Adj. PAT	208	61	240.4	147	41.0	
<b>Ashoka Buildcon</b>	Sales	12,695	12,548	1.2	9,807	29.4	ASBL's revenues are expected to remain largely flat YoY due to delayed commencement of 3 major projects. EBITDAM is expected to soften to 14.2%. During the quarter, ASBL bagged a solar plant project worth Rs5bn. With negotiations of SBI Macquarie stake sale deal at advanced stages, an update on conclusion of the deal would be a key monitorable.
	EBITDA	1,806	2,289	(21.1)	1,055	71.1	
	Margin (%)	14.2	18.2		10.8		
	PBT	1,765	2,136	(17.3)	1,129	56.4	
	Adj. PAT	1,324	1,642	(19.4)	856	54.6	
<b>Capacite Infraprojects</b>	Sales	3,919	3,072	27.6	3,058	28.2	Capacite's revenues are expected to grow by 27.6% YoY as the company witnessed sharp pickup in operations, especially CIDCO and other major private sector projects. We expect EBITDAM to improve 100bps YoY to 16.5% due to operating leverage kicking in. Execution ramp up in CIDCO project, commencement of MHADA, healthy OB from private sector and overall upcycle in real estate sector would drive strong performance in coming quarters.
	EBITDA	645	476	35.4	546	18.1	
	Margin (%)	16.5	15.5		17.9		
	PBT	290	47	515.0	206	40.9	
	Adj. PAT	228	38	494.9	152	49.7	
<b>H.G. Infra Engineering</b>	Sales	7,670	6,341	21.0	7,507	2.2	We expect HGINfra's revenues to grow by ~21% YoY in 4Q on the back of entire OB in execution (excluding new projects bagged in Mar'21). EBITDAM is expected to remain resilient at 16.9%. During the quarter, company was declared L-1 in 3 HAM projects worth Rs24.7bn & 1 mining project worth Rs1bn and received AD for Rewari Bypass HAM. Receipt of AD and commencing operations in recently awarded projects would be key monitorables.
	EBITDA	1,295	1,089	18.8	1,314	(1.4)	
	Margin (%)	16.9	17.2		17.5		
	PBT	929	721	28.9	888	4.6	
	Adj. PAT	705	543	29.7	678	4.0	
<b>IRB Infrastructure Developers</b>	Sales	16,872	15,845	6.5	15,472	9.1	Toll collection across its asset portfolio remained strong in 4Q. However, revenues for 3Q are expected to grow by only ~6.5% due to muted construction revenues. EBITDA Margins are expected to rise to 46% due to higher share of BOT toll revenues. During the quarter, IRB bagged 1 BOT project worth Rs24.2bn and 1 HAM project worth Rs8.3bn. (Numbers are not directly comparable YoY due to transfer of 9 BOT assets to private INVIT).
	EBITDA	7,760	6,549	18.5	7,200	7.8	
	Margin (%)	46.0	41.3		46.5		
	PBT	1,778	1,895	(6.2)	1,355	31.2	
	Adj. PAT	754	1,543	(51.1)	695	8.6	
<b>ITD Cementation India</b>	Sales	9,966	7,396	34.8	7,917	25.9	ITCE's revenues for 4Q are expected to grow by ~35% YoY on the back of execution ramping up and lower base in FY20. EBITDAM expected to soften to 9.1% due to impact of rising RM costs. During the quarter, ITCE bagged Calcutta HC project of Rs3.8bn and a bridge construction project of Rs1.5bn. Execution ramp-up in recently awarded projects and impact of rising RM costs would be key monitorables.
	EBITDA	907	842	7.8	709	27.9	
	Margin (%)	9.1	11.4		9.0		
	PBT	361	244	48.2	128	182.6	
	Adj. PAT	306	355	(13.6)	300	2.1	
<b>J.Kumar Infraprojects</b>	Sales	9,100	8,778	3.7	8,162	11.5	We expect JKIL's revenues to grow by ~3.7% YoY in 4Q with rising execution levels and labour force at pre-covid levels. EBITAM will improve to 14.2% due to low base effect. Commencement of operations in new projects (Worli Sewri corridor and Surat metro) and awarding momentum (given strong pipeline) would be the key monitorable.
	EBITDA	1,290	919	40.3	1,155	11.8	
	Margin (%)	14.2	10.5		14.1		
	PBT	733	403	81.8	617	18.8	
	Adj. PAT	569	311	83.1	449	26.6	
<b>KNR Constructions</b>	Sales	7,541	6,756	11.6	6,863	9.9	We expect KNRC's 4Q revenues to grow by ~11.6% YoY on the back of strong execution with labour availability at pre-covid levels across project sites. EBITDAM is expected to soften to 20%. During the quarter, KNRC bagged huge orders which include 2 EPC projects worth Rs17.1bn and 2 HAM projects worth Rs40.3bn. Commencement of operations in new projects and timely payments from State Govts would be key monitorables.
	EBITDA	1,505	1,469	2.5	1,353	11.3	
	Margin (%)	20.0	21.7		19.7		
	PBT	1,182	859	37.5	1,061	11.4	
	Adj. PAT	925	672	37.7	776	19.3	

Company Name		Q4FY21E	Q4FY20	YoY gr. (%)	Q3FY21	QoQ gr. (%)	Remark
NCC	Sales	24,731	21,820	13.3	19,184	28.9	We expect NCC's revenues to grow by ~13.3% YoY on the back of pickup in execution momentum and massive order book. EBIDAM is expected to soften to 11.1%. Further, NCC bagged orders worth Rs17.3bn during the quarter in Water/Irrigation and Building divisions. Status of disbursements from State Govts (particularly AP & Telangana) and pickup in execution of new projects would be key monitorables.
	EBITDA	2,749	2,805	(2.0)	2,393	14.9	
	Margin (%)	11.1	12.9		12.5		
	PBT	1,140	1,412	(19.2)	1,134	0.5	
	Adj. PAT	840	1,037	(19.0)	703	19.5	
PNC Infratech	Sales	16,770	11,579	44.8	13,224	26.8	PNCL's revenues are expected grow by ~45% YoY due to lower base and an uptick in execution momentum. EBITDAM expected to improve to 14.1% with operating leverage kicking in. During the quarter, PNCL bagged a major water supply project in UP worth Rs24.8bn and received AD for 4 HAM projects worth over Rs61bn. Pickup in execution in new projects and update on monetisation of operational road assets' portfolio would be key monitorables.
	EBITDA	2,364	1,563	51.2	1,785	32.4	
	Margin (%)	14.1	13.5		13.5		
	PBT	1,905	1,083	76.0	1,594	19.5	
	Adj. PAT	1,464	761	92.5	1,032	41.9	
Sadbhav Engineering	Sales	6,783	4,089	65.9	5,560	22.0	SADE's revenues are expected to grow by ~66% YoY due to lower base in FY20 and pickup in execution with labour force back to pre-covid levels. EBITDAM is expected to slightly improve to 12.7%. Commencement of operations in their recently bagged metro projects and status of PCOD in projects nearing completion would be key monitorables.
	EBITDA	860	504	70.4	737	16.7	
	Margin (%)	12.7	12.3		13.2		
	PBT	290	-9	(3,482.3)	152	90.5	
	Adj. PAT	184	-88	(308.6)	152	21.5	

Source: Company, PL

## Exhibit 4: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Ahluwalia Contracts (India)	BUY	293	384	18.8	18.4	27.2	31.0	1.5	1.3	3.1	3.6	0.6	0.6	1.8	2.1	9.6	9.1	27.3	30.9	8.4	7.3	19.2	18.1	30.4	32.2	10.7	9.5
Ashoka Buildcon	BUY	96	160	50.7	45.2	55.5	59.0	15.8	14.7	16.6	17.7	1.6	2.1	2.3	2.4	5.7	7.5	8.2	8.5	45.7	41.7	32.9	26.4	16.8	12.8	11.7	11.3
Capacite's Infraprojects	BUY	199	270	15.3	9.0	23.0	26.6	2.6	1.3	3.6	4.2	0.9	0.0	1.4	1.8	13.4	0.2	20.7	27.0	10.3	0.2	14.2	16.2	14.8	912.6	9.6	7.4
H.G. Infra Engineering	BUY	294	311	22.2	22.9	31.3	34.9	3.6	4.0	4.8	5.4	1.7	1.9	2.2	2.5	26.0	28.5	34.3	38.9	22.8	20.2	19.9	18.6	11.3	10.3	8.6	7.6
IRB Infra. Developers	BUY	108	157	68.5	57.9	59.9	64.3	29.7	26.9	28.2	30.2	6.6	3.8	6.5	8.0	18.9	10.8	18.5	22.7	10.2	5.6	9.1	10.3	5.7	10.1	5.8	4.8
ITD Cementation India	BUY	76	97	28.6	27.7	36.3	41.3	3.0	2.2	3.8	4.5	0.8	0.3	1.2	1.7	4.9	1.5	6.8	9.7	8.2	2.5	10.3	13.1	15.5	49.6	11.2	7.8
J.Kumar Infraprojects	BUY	183	260	29.7	24.9	34.1	39.9	4.3	3.4	5.0	5.9	1.8	0.9	2.2	2.8	24.3	11.6	29.5	37.1	10.5	4.7	11.1	12.4	7.5	15.7	6.2	4.9
KNR Constructions	Acc	210	243	22.4	25.2	34.7	39.4	4.9	5.0	6.4	7.3	2.4	2.7	3.7	4.1	16.8	9.6	13.0	14.5	15.5	15.4	17.7	16.7	12.5	21.8	16.2	14.5
NCC	BUY	78	111	82.2	71.1	102.8	115.6	10.3	8.5	12.7	14.3	4.1	2.2	4.8	5.7	6.8	3.5	7.9	9.4	8.4	4.2	8.9	9.8	11.5	22.0	9.8	8.3
PNC Infratech	BUY	256	295	48.8	49.6	62.9	70.0	7.6	6.8	9.0	10.0	4.6	3.7	5.2	5.6	17.9	14.3	20.5	22.0	19.7	13.5	16.7	15.4	14.2	17.8	12.5	11.6
Sadbhav Engineering	BUY	63	115	22.5	18.8	26.9	34.3	2.8	2.3	3.3	4.2	0.7	0.2	1.0	1.6	4.0	1.2	6.1	9.5	3.3	1.0	4.9	7.2	15.8	53.4	10.3	6.6

Source: Company, PL.

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,195	1,423
2	Ahluwalia Contracts (India)	BUY	384	307
3	Apar Industries	BUY	543	373
4	Ashoka Buildcon	BUY	160	105
5	Bharat Electronics	Accumulate	110	132
6	BHEL	Hold	34	39
7	Capacite's Infraprojects	BUY	270	213
8	Container Corporation of India	BUY	561	467
9	Cummins India	Hold	546	666
10	Engineers India	BUY	115	73
11	GE T&D India	Hold	122	123
12	H.G. Infra Engineering	BUY	311	219
13	IRB Infrastructure Developers	BUY	157	116
14	ITD Cementation India	BUY	97	71
15	J.Kumar Infraprojects	BUY	260	188
16	Kalpataru Power Transmission	BUY	437	369
17	KEC International	Accumulate	402	360
18	KNR Constructions	Accumulate	243	222
19	Larsen & Toubro	BUY	1,526	1,361
20	NCC	BUY	111	90
21	PNC Infratech	BUY	295	245
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	BUY	115	80
24	Siemens	Accumulate	1,856	1,875
25	Thermax	Accumulate	1,008	1,207
26	Triveni Turbine	BUY	98	88
27	Voltamp Transformers	BUY	1,466	1,260

**PL's Recommendation Nomenclature**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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