

Strong performance; healthy guidance!

PNC Infratech's (PNC) execution was robust, with a stronger than expected topline and higher margins led by operating leverage. Topline came in at ₹ 1644 crore, up ~42% YoY, driven by improved executable order book and optimum labour availability. The consequent margin was at 14.1% (up 63 bps YoY), led by operating leverage. PAT came in at ₹ 129.4 crore, up 70% YoY, led by a strong operating performance, lower interest costs and despite higher taxation.

Order book provides robust revenue visibility in medium term

As on Q4 end, PNC's order book (OB) was at ₹ 11,648 crore. However, this OB excludes: a) two EPC projects of Delhi Vadodara alignment worth ₹ 1,548 crore and b) irrigation and water projects worth ₹ 3427 crore. Including these projects, the OB is robust at ~ ₹ 16,623 crore (OB/TTM revenues: 3.4x) and provides revenue visibility over the next three years. The order book is well diversified with HAM, EPC, water & canal forming 45%, 27%, 28%, respectively. The company expects additional orders worth ₹ 8000-9000 crore in FY22E (excluding L1), which is likely to strengthen its elevated OB position even further. The key focus, going ahead, would be on road (EPC, HAM, both) with order inflows from water/irrigation largely done.

Execution to accelerate; well-placed to fund HAM projects

We expect execution to stay robust with appointed date received for all road projects coupled with execution in water/irrigation projects. We highlight that the company has guided for ~20% revenue growth in FY22 and margins in the range of 13.5-14%. Given the escalation clause in the contracts, PNC does not expect raw material to impact margins materially. Post a likely flattish FY21, we expect revenues to grow at 20% CAGR in FY21-23 to ₹ 7073 crore, with new orders contributing to growth pickup. We expect operating margin to remain elevated at ~13.75% in FY22E and FY23E (mid-range of guidance). Additionally, the company is well-placed to fund its remaining equity requirement of ₹ 860 crore (including new HAM projects) over the next three years to be aided by its healthy internal cash accruals and current net cash of ₹ 389 crore.

Valuation & Outlook

PNC remains our preferred pick in the EPC space given its robust order book, healthy return ratios and lean balance sheet. Irrespective of its asset monetisation plan fructification (it is looking to monetise its BOT/HAM assets and expects some development by year end), sufficient internal accruals from current order book and current cash is enough for equity infusion. The government focus on roads and water sector also bodes well. We maintain our **BUY** rating with an unchanged SoTP target price of ₹ 300/share. We value its construction business at ₹ 253/share (at 6.5x FY23E EV/EBITDA implying ~12x FY23 EPS).

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales	3,096.9	4,877.9	4,925.4	5,915.3	7,073.3	19.8%
EBITDA	457.3	764.3	672.8	813.3	972.6	20.2%
EBITDA Margin (%)	14.8	15.7	13.7	13.8	13.8	
Adjusted PAT	324.9	315.2	361.9	477.7	544.7	22.7%
EPS (₹)	12.7	17.9	14.1	18.6	21.2	
P/E (x)	19.4	13.7	17.4	13.2	11.6	
EV/EBITDA (x)	13.9	7.6	8.7	7.4	6.2	
RoNW (%)	15.4	12.4	12.4	14.2	13.9	
RoCE (%)	16.4	25.3	19.2	20.1	20.9	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount (₹ crore)
Market Cap	6,298.0
Total Debt	399.0
Cash	768.3
EV	5,928.8
52 week H/L (₹)	291/ 127
Equity capital	51.3
Face value	₹ 2

Key Highlights

- Including new projects, the OB is robust at over ~₹ 16,623 crore (OB/TTM revenues: 3.4x) and provides revenue visibility over the next three years.
- Maintain BUY with unchanged target price of ₹ 300/share

Key risks to our call

- Any delay in execution in key HAM projects
- Any stress on working capital in water/irrigation projects

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Exhibit 1: Variance analysis

Particulars	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	1644.3	1562.7	1157.9	42.0	1322.4	24.3	Topline growth led by superior execution
Other Income	17.1	15.9	15.9	7.0	24.3	-29.6	
Net Raw material consumed	1168.5	1144.7	822.5	42.1	923.1	26.6	
Employee benefit expenses	77.5	56.4	62.3	24.4	92.4	-16.0	
Other Expenses	165.9	150.0	116.8	42.0	128.5	29.1	
EBITDA	232.4	211.6	156.3	48.7	178.5	30.2	
EBITDA Margin(%)	14.1	13.5	13.5	63 bps	13.5	63 bps	
Depreciation	30.0	30.0	32.4	-7.3	28.2	6.5	
Interest	14.8	22.0	31.6	-53.3	15.3	-3.1	
PBT	204.7	175.4	108.3	89.1	159.4	28.4	
Taxes	75.3	52.6	32.2	133.9	56.2	NM	
PAT	129.4	122.8	76.1	70.1	103.2	25.4	PAT beat on account of healthy operating performance and lower interest expenses

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21	FY22E			FY23E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	4,877.9	4,925.4	6,092.5	5,915.3	-2.9	6,988.3	7,073.3	1.2	Tweak estimates post Q4 performance
EBITDA	764.3	672.8	852.9	813.3	-4.6	978.4	972.6	-0.6	
EBITDA Margin (%)	15.7	13.7	14.0	13.8	-25 bps	14.0	13.8	-25 bps	
PAT	315.2	361.9	457.2	477.7	4.5	516.8	544.7	5.4	
Diluted EPS (₹)	17.9	14.1	17.8	18.6	4.5	20.1	21.2	5.4	

Source: Company, ICICI Direct Research

Conference call highlights

- NHAI ordering and company's order inflow expectations:** As per the management, NHAI has awarded 4788 km in FY21 and total road projects awarded by Ministry of Road Transport and Highways (MoRTH) (including NHAI) were 10965 km in FY21 vs. 8912 km in FY20. The company also said that out of total projects awarded in FY21, only two were BOT, 69 were HAM and 70 were in EPC mode. Furthermore, for FY22, awarding of road projects of over ₹ 2 lakh crore is expected, which provides huge incremental opportunity for the company to bag road projects. PNC expects additional orders worth ₹ 8000-9000 crore in FY22E, which is likely to strengthen its elevated OB position even further. The key focus, going ahead, would be on road (EPC, HAM, both) with order inflows from water/irrigation largely done
- Receipt of appointed dates in HAM & guidance:** The management received the appointed date (AD) of all three remaining HAM projects in Q4 and two EPC projects by April/May, 2021. Among water/irrigation segment projects, it expects the appointed date in next couple of months. Thus, with expected surge in executable order book, the management has guided for ~20% revenue growth in FY22 and margins in the range of 13.5-14%
- Equity requirement:** PNC has infused ₹ 599 crore equity in its HAM projects by Q4FY21 and has a balance equity requirement of ₹ 860 crore (including new HAM projects). It expects overall equity infusion schedule as: ₹ 315 crore in FY22E, ₹ 319 crore in FY23E and remaining in FY24E. Overall, with healthy internal cash accruals and current net cash of ₹ 369 crore, the company can easily fund its remaining equity requirement
- Debt, capex, working capital:** PNC's standalone debt was at ₹ 399 crore as of Q4FY21, largely for equipment financing with no working capital debt. Cash and bank on PNC's books was at ₹ 788 crore, making the company net cash positive. The working capital days as on FY21 was 51 days (vs. ~57 days as on FY20 end). On the capex front, the management has guided for ₹ 125 crore in FY22E (~₹ 190 crore in FY21)
- Asset monetisation:** PNC Infratech has approved divestment of its entire stake of 35% (which includes 19.88% stake held by PNC Infra Holdings, wholly owned subsidiary of the company) in the Ghaziabad Aligarh Expressway project to Cube Highways and Infrastructure. While the deal value was not revealed, it indicated that it does not expect any impairment in its total investment amount of ₹ 400 crore, including loans to SPV. The company is in discussion with two interested investors for some HAM/BOT monetisation and expect some development by FY22 end
- Toll revenue** – MP highways ₹ 13.4 crore, Kanpur Ayodhya ₹ 114 crore, Kanpur highway ₹ 29.6 crore, Narela ₹ 11.8 crore, Bareilly Almora ₹ 13.5 crore, Ghaziabad Aligarh - ₹ 59.4 crore, Rae Bareilly Jaunpur - ₹ 32.2 crore
- Others**
 - The company expects tax rate of 28.5% in FY21

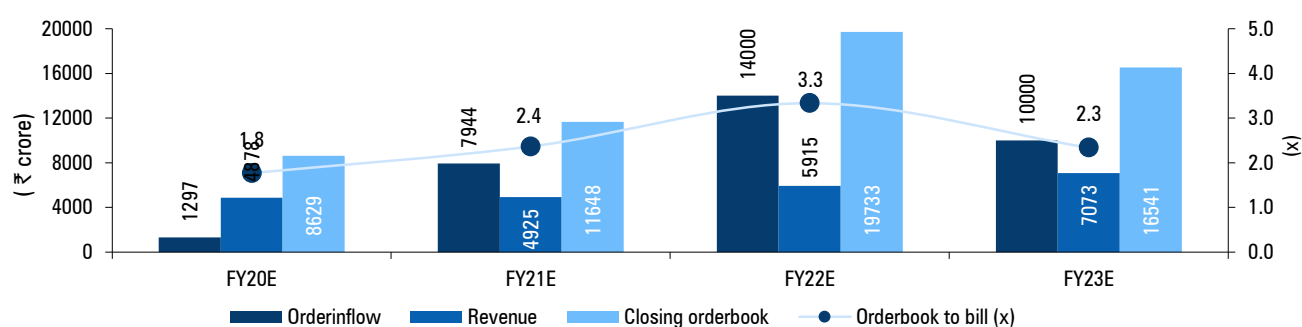
Company Analysis

Exhibit 3: Key EPC projects under construction

Order book	Remaining Value (₹ crore)
Aligarh-Kappur Pkg-V	1651
Unnao-Lalganj	1371
Jagdishpur Faizabad	1219
Meerut Nazibabad	1115
Lucknow Ringroad	946
Challakere to Hariyur	873
Top 6 projects	7175
Other Projects	4473
Total	11648

Source: Company, ICICI Direct Research

Exhibit 4: Strong order book position



Source: Company, ICICI Direct Research

Exhibit 5: BOT project summary

Project	% Stake	Authority	State	Stretch	Type	Kms	Lanes	Equity invested (₹ crore)	PNC's share of invested equity (₹ crore)	Debt outstanding (₹ crore)
Ghaziabad Aligarh	35	NHAI	UP	NH-91	Toll	125.0	4	194.0	67.9	721.0
Kanpur Kabrai	100	NHAI	UP	NH-86	Toll	123.0	2	67.5	67.5	146.0
Gwalior Bhind	100	MPRDC	MP	NH-92	Toll	107.7	2	78.3	78.3	119.0
Bareilly Almora*	100	UPSHA	UP	SH-37	Toll	54.0	4	74.6	74.6	330.0
Rae Bareilly Jaunpur*	100	NHAI	UP	NH-23	Annuity	166.4	2	139.6	139.6	493.0
Narela Industrial Estate	100	DSIIDC	Delhi	NA	Annuity	33.0	NA	35.0	35.0	50.0
Kanpur Ayodhya	100	NHAI	UP	NH-28	OMT	217.0	4	0.1	0.1	-
Total						826.1		589.1	463.0	1859.0

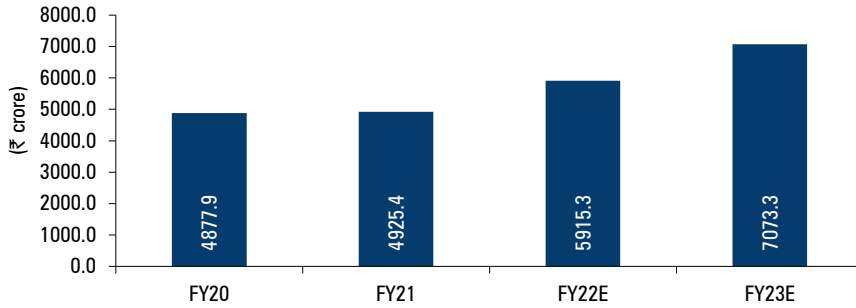
Source: Company, ICICI Direct Research

Exhibit 6: HAM project summary

Project	% Stake	Authority	State	Stretch	Kms	Lanes	Total Project cost (₹ crore)	PNC's share of invested equity (₹ crore)	Outstanding Debt
Dausa-Lalsot	100	NHAI	Rajasthan	NH-11A	83.5	4	820	65	338
Chitradurga-Davanagere	100	NHAI	Karnataka	NH-48	72.7	6	1338	78	438
Jhansi-Khajuraho (Package I)	100	NHAI	UP & MP	NH-75/76	76.3	4	1342	108	500
Jhansi-Khajuraho (Package II)	100	NHAI	UP & MP	NH-75/76	85.4	4	1262	85	466
Chakeri-Allahabad	100	NHAI	UP	NH-2	145.1	6	2018	115	498
Aligarh Kanpur	100	NHAI	UP	NH-91	45.0	4	1104	105	400
Challakere - Hariyur	100	NHAI	Karnataka	NH-150A	55.7	4	1013	8	
Jagdishpur - Faizabad	100	NHAI	UP	NH-330A	60.2	4	1311	10	
Mitrasen to Kanpur	100	NHAI	UP	NH-91	60.6	4	1790	10	
Unnao-Lalganj	100	NHAI	UP	NH-232A	70.0	4	1491	10	
Meerut - Nazibabad	100	NHAI	UP	NH-119	53.9	4	1256	5	
Total					808.4		14745	599	2640

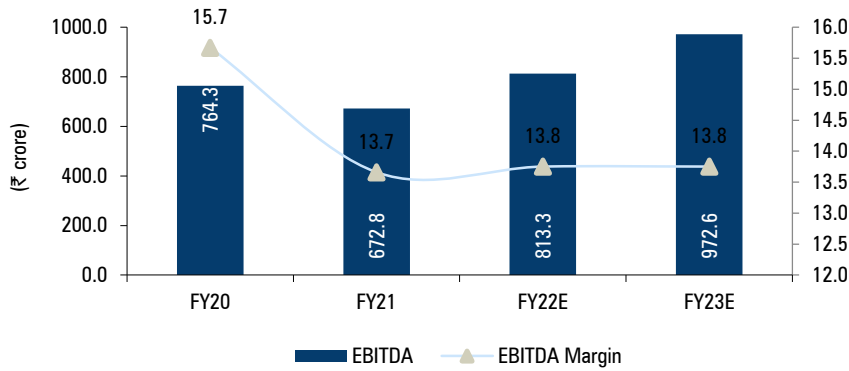
Source: Company, ICICI Direct Research

Exhibit 7: Revenue to witness sharp recovery in FY22E



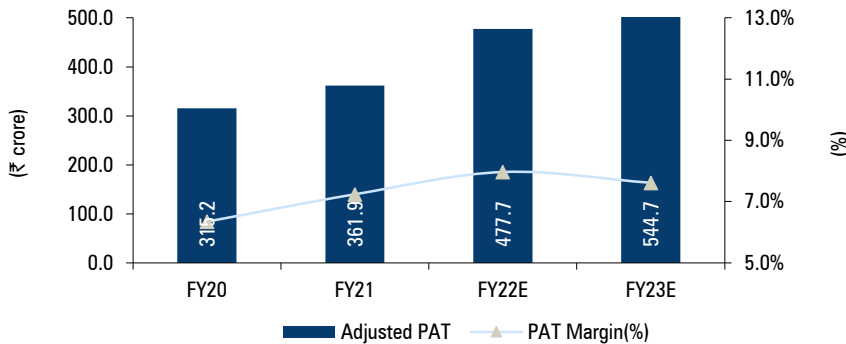
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA & EBITDA margin trend



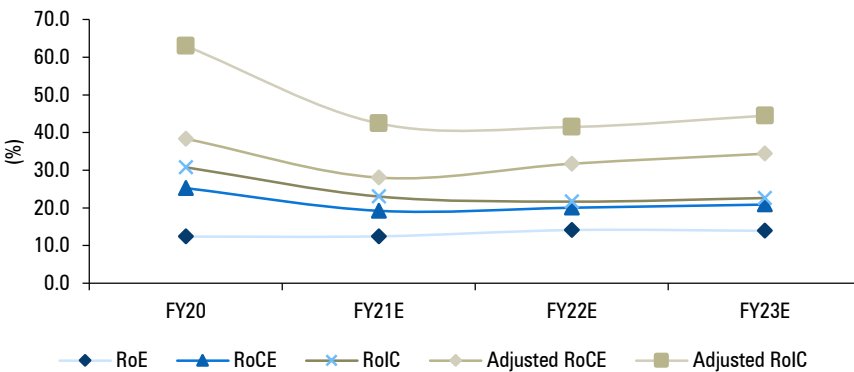
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Valuation & Outlook

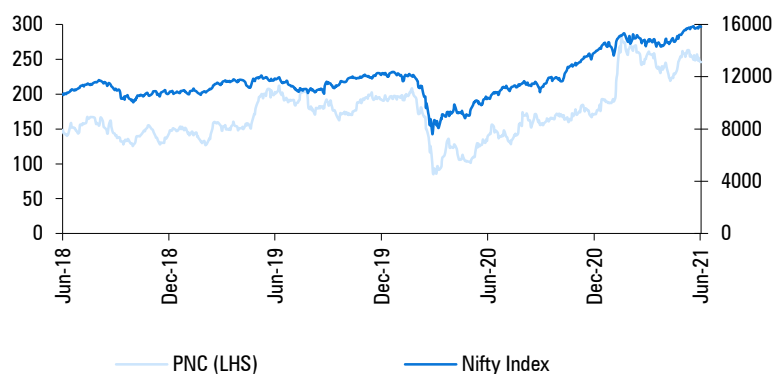
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Exhibit 11: SoTP valuation

Entity	Per share (₹)		Comment
Construction Business	6,322	246	6.5x FY23 EV/EBITDA
BOT & HAM Projects	1,194	47	
Bareilly Almora	63	2	
Gwalior Bhind	154	6	
Raibareli Jaunpur	71	3	
Narela Industrial Area	120	5	
Kanpur Kabrai	187	7	
Investment in HAM projects	599	23	1x Equity Invested
Less: Net Debt	(187)	(7)	FY23E net debt
Target Price	7,703	300	
Rounded off target price	300	300	

Source: Company, ICICI Direct Research

Exhibit 12: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	4,877.9	4,925.4	5,915.3	7,073.3
Other operating income	-	-	-	-
Other income	88.5	75.2	82.8	82.8
Total Revenues	4,966.4	5,000.7	5,998.0	7,156.1
Raw Material Expense	3,371.0	3,496.5	4,199.8	5,022.1
Employee expenses	265.1	279.1	307.6	367.8
Other Expenses	477.5	477.1	594.5	710.9
Total Operating Exp	4,113.6	4,252.7	5,101.9	6,100.8
EBITDA	764.3	672.8	813.3	972.6
Interest	114.4	77.1	90.2	100.0
Depreciation	126.4	112.4	137.8	154.3
PBT	612.0	558.5	668.1	801.0
Total Tax	151.7	196.6	190.4	256.3
Reported PAT	460.3	361.9	477.7	544.7
Adjusted PAT	315.2	361.9	477.7	544.7
EPS (Diluted)	17.9	14.1	18.6	21.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
₹ crore	FY20	FY21	FY22E	FY23E
Profit after Tax	460.3	361.9	477.7	544.7
Depreciation	126.4	112.4	137.8	154.3
Other Income	-88.5	-75.2	-82.8	-82.8
Cash Flow before WC changes	764.4	672.8	813.3	972.6
Net Increase in Current Assets	-172.6	-250.1	-597.7	-565.4
Net Increase in Current Liabilities	311.5	12.3	285.0	331.5
Net CF from Op. Activities	751.5	238.4	310.3	482.3
(Purchase)/Sale of Fixed Assets	-92.7	-183.5	-125.0	-150.0
Purchase of Investment	-125.1	-97.2	-350.0	-300.0
Other Income	88.5	75.2	82.8	82.8
Net CF from Inv. Activities	-129.3	-205.4	-392.2	-367.2
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-114.4	-77.1	-90.2	-100.0
Increase/Decrease in Debt	-48.2	72.4	0.0	0.0
Dividend Paid	-16.1	0.0	-12.8	-12.8
Net CF from Fin. Activities	-191.5	-4.7	-103.0	-112.9
Net Cash flow	430.7	28.2	-185.0	2.3
Opening Cash/ Cash Equiv.	309.4	740.1	768.2	583.3
Closing Cash/ Cash Equiv.	740.1	768.2	583.3	585.5

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Liabilities				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	2,495.3	2,857.2	3,322.0	3,853.9
Networth	2,546.6	2,908.5	3,373.4	3,905.2
Secured Loan	326.6	399.0	399.0	399.0
Unsecured Loan	-	-	-	-
Total Debt	326.6	399.0	399.0	399.0
Deferred Tax Liability	-	-	-	-
Total Liabilities	2,873	3,307	3,772	4,304
Assets				
Gross Block	948.4	1,127.8	1,252.8	1,402.8
Net Block	586.5	653.5	640.7	636.4
Capital WIP	-	3.4	3.4	3.4
Non-current Investments	979.7	1,038.7	1,388.7	1,688.7
Current Assets				
Inventories	267.3	353.6	424.7	507.8
Sundry Debtors	803.5	839.2	1,053.4	1,259.6
Loans and Advances	712.8	801.7	1,053.4	1,259.6
Other Current Assets	256.5	295.7	356.5	426.3
Cash	740.1	768.3	583.3	585.5
Total Current Assets	2,842.5	3,159.0	3,571.8	4,139.4
Creditors	467.5	719.4	858.9	1,027.1
Provisions	10.8	23.8	28.6	34.2
Other Current Liabilities	412.4	383.6	460.7	523.2
Other Long Term Liabilities	646.3	422.6	486.2	581.4
Total Current Liabilities	1,537.1	1,549.4	1,834.4	2,165.9
Net Current Assets	1,305.5	1,609.6	1,737.3	1,973.5
Total Assets	2,873	3,307	3,772	4,304

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
EPS (Fully Diluted)	17.9	14.1	18.6	21.2
Cash EPS	22.9	18.5	24.0	27.2
BV	99.3	113.4	131.5	152.2
Dividend per share	0.5	0.5	0.5	0.5
Operating Ratios				
EBITDA / Net Sales	15.7	13.7	13.8	13.8
PAT / Net Sales	6.5	7.3	8.1	7.7
Inventory Days	20.0	26.2	26.2	26.2
Debtor Days	60.1	62.2	65.0	65.0
Creditor Days	35.0	53.3	53.0	53.0
Return Ratios				
RoE	12.4	12.4	14.2	13.9
RoCE	25.3	19.2	20.1	20.9
RoIC	30.8	23.0	21.9	22.6
Valuation Ratios				
EV / EBITDA	7.6	8.7	7.4	6.2
P/E	13.7	17.4	13.2	11.6
EV / Net Sales	1.2	1.2	1.0	0.8
Market Cap / Sales	1.3	1.3	1.1	0.9
Price to Book Value	2.5	2.2	1.9	1.6
Turnover Ratios				
Asset turnover	1.7	1.5	1.6	1.6
Gross Block Turnover	5.1	4.3	4.7	5.0
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.3	1.5	1.6	1.6
Debt / EBITDA	0.4	0.6	0.5	0.4
Quick Ratio	1.2	1.2	1.3	1.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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