ANANDRATHI

India I Equities

Infrastructure

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

29 June 2021

PNC Infratech

Rating: Buy
Target Price: Rs.323
Share Price: Rs.246

Going strong; retaining a Buy

The recently-received appointed dates for a host of new orders pave the way for PNC Infratech to further build on the strong FY21 close. Hence, an even better scale of operations is in sight. The continuing net cash balance sheet is an augury, ensuring that the execution ramp-up is swift and bidding capacity, buoyant. Success with asset monetisation efforts underway hold potential to add further strength to the balance sheet and, in turn, heighten growth prospects. With key growth requisites in place and them paving the way to a brighter future, we retain our Buy rating with a higher TP of Rs323 (from Rs311 earlier).

Road OB fully appointed. Though Feb-Mar'21 was devoid of any new orders, the strong orders added during 10M FY21 (~Rs72bn, PNC's share of EPC potential) mean the current OB (~Rs165bn, ~3.3x book-to-bill) is still sturdy to drive growth; with the recent appointments of road EPC and hybrid annuities (seven during Jan-May'21), the entire road OB is moving.

Net cash status holds. Though the net cash balance was down ~Rs0.8bn q/q, end-Mar'21 cash & equivalents were still ~Rs3.9bn ahead of the year-end ~Rs4bn gross debt (~Rs0.3bn higher q/q). The lower net-cash balance arose from the equity-infusion needs (~Rs0.6bn) and capex spend (~Rs0.25bn).

Asset monetisation progressing. For Ghaziabad-Aligarh, lenders' NOCs are already in place, and the NOC from the NHAI for change in ownership is expected in a month. Prospective buyers are in place for some of the other assets, and bids are expected in a month or two. Due diligence would then commence.

Valuation. Taking into account FY21 actuals, our raised FY22e/FY23e margins and a higher effective tax rate for FY22, our FY22e earnings are ~1% lower, and FY23e earnings, ~4% higher. On our revised estimates, the stock is available (excl. investments) at a PER of 9.5x FY23e. **Risk:** Significant delays in orders added.

Key financials (YE Mar)	FY19	FY20	FY21P	FY22e	FY23e
Sales (Rs m)	30,969	48,779	49,254	59,196	70,532
Net profit (Rs m)	3,249	4,603	3,619	4,664	5,728
EPS (Rs)	12.7	17.9	14.1	18.2	22.3
Growth (%)	29.4	41.7	-21.4	28.9	22.8
P/E (x)	12.0	5.2	18.3	13.5	11.0
EV / EBITDA (x)	8.7	2.5	9.1	7.4	6.2
P/BV (x)	1.8	0.9	2.3	1.9	1.6
RoE (%)	16.6	19.7	13.3	14.9	15.8
RoCE (%)	19.7	28.6	21.1	21.1	21.6
Net debt / equity (x)	0.0	-0.2	-0.2	-0.1	-0.1

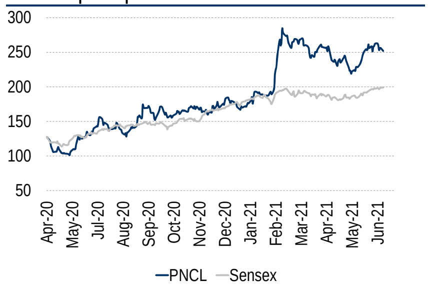
Source: Company, Anand Rathi Research *P - Provisional*

Key data	PNCL IN / PNCI.BO
52-week high / low	Rs.291 / 127
Sensex / Nifty	52736 / 15815
3-m average volume	$1.7m
Market cap	Rs63bn / $849m
Shares outstanding	257m

Shareholding pattern (%)	Mar-21	Dec-20	Sep-20
Promoters	56.1	56.1	56.1
- of which, Pledged	-	-	-
Free float	43.9	43.9	43.9
- Foreign institutions	10.8	5.8	6.1
- Domestic institutions	27.7	23.8	24.3
- Public	5.4	14.3	13.6

Estimates revision (%)	FY22e	FY23e
Sales	-3.5	-1.7
EBITDA	-1.7	-0.1
EPS (Rs)	-1.2	4.5

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY19	FY20	FY21P	FY22e	FY23e
Order backlog	122,100	86,290	164,515	175,397	192,896
Order inflow	79,889	11,857	127,479	69,949	88,032
Net revenues	30,969	48,779	49,254	59,196	70,532
Growth (%)	*66.8*	*57.5*	*1.0*	*20.2*	*19.2*
Direct costs	23,873	37,819	37,756	47,066	56,148
SG&A	2,522	3,317	4,771	4,122	4,919
EBITDA	4,573	7,643	6,728	8,008	9,466
EBITDA margins (%)	*14.8*	*15.7*	*13.7*	*13.5*	*13.4*
Depreciation	922	1,264	1,124	1,305	1,491
Other income	430	885	752	719	734
Interest expenses	641	1,144	771	899	1,053
PBT	3,440	6,120	5,585	6,523	7,655
Effective tax rate (%)	*5.6*	*24.8*	*35.2*	*28.5*	*25.2*
+ Associates / (Minorities)	-	-	-	-	-
Net income	3,249	4,603	3,619	4,664	5,728
Adjusted income	3,249	4,603	3,619	4,664	5,728
WANS	257	257	257	257	257
FDEPS (Rs/ sh)	12.7	17.9	14.1	18.2	22.3

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21P	FY22e	FY23e
Share capital	513	513	513	513	513
Net worth	21,152	25,466	29,085	33,621	39,092
Debt	3,747	3,266	3,992	4,169	4,069
Minority interest	-	-	-	-	-
DTL / (Assets)	-1,673	-1,215	-225	-225	-225
Capital employed	23,226	27,517	32,852	37,564	42,936
Net tangible assets	6,135	5,865	6,535	6,785	7,351
Net intangible assets	20	16	22	14	11
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	62	-	34	-	-
Investments (strategic)	5,730	6,732	7,465	10,965	14,155
Investments (financial)	-	623	1,005	-	-
Current assets (ex cash)	20,441	22,252	25,600	31,516	37,487
Cash	3,094	7,401	7,683	7,784	8,059
Current liabilities	12,256	15,371	15,492	19,499	24,127
Working capital	8,185	6,881	10,108	12,017	13,360
Capital deployed	23,226	27,517	32,852	37,564	42,936
Contingent liabilities	26,620	27,283	-	-	-

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY19	FY20	FY21P	FY22e	FY23e
PBT + Net interest expense	3,651	6,379	5,604	6,704	7,974
+ Non-cash items	922	1,264	1,124	1,305	1,491
Oper. prof. before WC	4,573	7,643	6,728	8,008	9,466
- Incr. / (decr.) in WC	653	-1,303	3,227	1,909	1,343
Others incl. taxes	171	1,612	1,998	1,859	1,927
Operating cash-flow	3,749	7,335	1,503	4,240	6,196
- Capex (tang. + intang.)	2,964	927	1,835	1,511	2,055
Free cash-flow	785	6,408	-332	2,729	4,141
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	155	309	-	128	257
+ Equity raised	-	-	-	-	-
+ Debt raised	2,013	-23	1,716	177	-100
- Fin investments	782	1,625	1,115	2,495	3,190
- Net interest expense + misc.	240	145	-13	180	320
Net cash-flow	1,621	4,306	282	102	275

Source: Company, Anand Rathi Research *P - Provisional*

Fig 4 – Ratio analysis

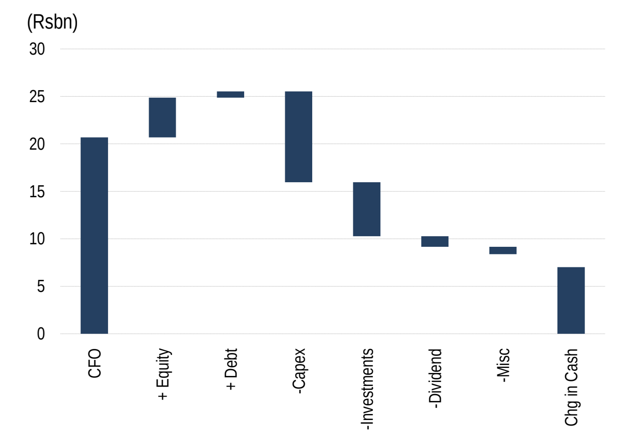
Year-end: Mar	FY19	FY20	FY21P	FY22e	FY23e
P/E (x)	12.0	5.2	18.3	13.5	11.0
EV / EBITDA (x)	8.7	2.5	9.1	7.4	6.2
EV / Sales (x)	1.3	0.4	1.2	1.0	0.8
P/B (x)	1.8	0.9	2.3	1.9	1.6
RoE (%)	16.6	19.7	13.3	14.9	15.8
RoCE (%)	19.7	28.6	21.1	21.1	21.6
RoIC (%)	21.0	27.1	18.2	19.3	20.2
DPS (Rs / sh)	0.5	1.0	-	0.4	0.8
Dividend yield (%)	0.2	0.4	-	0.2	0.3
Dividend payout (%) - incl. DDT	4.8	6.7	-	2.8	4.5
Net debt / equity (x)	0.0	-0.2	-0.2	-0.1	-0.1
Receivables (days)	73	60	62	70	75
Inventory (days)	48	20	26	30	30
Payables (days)	56	35	53	46	45
CFO :PAT%	115.4	159.4	41.5	90.9	108.2

Source: Company, Anand Rathi Research *P - Provisional*

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Cumulative capital allocation,FY13-21P



Source: Company

Results, Concall highlights

- **Revenues scale a new high.** A sturdy OB and healthy pace of execution helped to Q4's ~Rs16.4bn revenue from operations. Though the y/y ~42% growth was partly aided by the Covid-impacted base of last year, the sequential ~24% higher revenues better reflect the operations ramp-up. With this strong a performance, quarterly and full-year revenues, despite Covid, scaled a new high.
  - Q4 revenues are ~24% better than the previous best in Q3 FY21, and the full year trumped the earlier life-high (in FY20) by ~3% (net of the early-completion bonus in FY20).
  - With the receipt of appointed dates for a host of recently added orders (incl. the long-delayed Challkere-Hariyur), and as the pace of execution stabilises on them, the income statement will be buoyant ahead. The gradual commencement of construction at the non-road OB would also aid the performance.
  - Management, thus, expects FY22 revenue to be ~20% higher y/y. This is subject to no further Covid-triggered disruptions.
- **EBITDA margin holds the fort.** The ~14.1% margin was ~63bps better y/y and q/q. With the gross margin either flat (true y/y) or compressed (true q/q), the expansion appears mostly a function of operating leverage. Overall, the EBITDA margin was largely in line with the company's guided-to range, of ~13.5-14%.

Fig 7 – Financial highlights

(Rsm)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	% Y/Y	% Q/Q
Revenue from operations	13,218	11,802	12,180	11,579	9,053	10,535	13,224	16,443	42.0	24.3
EBITDA	1,796	2,572	1,712	1,563	1,198	1,421	1,785	2,324	48.7	30.2
EBITDA margins (%)	13.6	21.8	14.1	13.5	13.2	13.5	13.5	14.1	63bps	63bps
Interest	179	247	401	316	253	218	153	148	-53.3	-3.1
Depreciation	305	309	326	324	270	272	282	300	-7.3	6.5
Other income	135	447	144	159	191	148	243	171	7.0	-29.6
PBT	1,447	2,463	1,128	1,083	866	1,079	1,594	2,047	89.1	28.4
Tax	445	394	356	322	265	386	562	753	133.9	34.0
PAT	1,001	2,069	771	761	601	693	1,032	1,294	70.1	25.4
EPS (Rs)	3.9	8.1	3.0	3.0	2.3	2.7	4.0	5.0	70.1	25.4

Source: Company

- **Earnings growth, inspiring.** Notwithstanding the higher effective tax rate in Q4, PNC delivered ~70% y/y higher earnings (of ~Rs1.3bn). This was on a mix of ~49% y/y greater operating profits and a sharp y/y contraction in finance costs. The y/y lower depreciation and higher other income too had roles to play in the y/y higher earnings.
  - The ~62% y/y lower finance costs was mainly attributed to the lower interest component on interest-bearing mobilisation advances (primarily Mumbai-Nagpur, all advances were settled).
  - The ~7% y/y lower depreciation is attributable to limited capex incurred in the recent past.
  - The above more than compensated for the higher effective tax rate (at ~36.8%, against ~29.7% a year ago).

BOT operations

- **Toll collection recovered smartly.** With the impact of the first Covid wave mostly subsided by Q4 FY21, and on more operating days (against the Covid-led six-day toll-suspended period in Q4 FY20), Q4 FY21 gross toll collection was up a smart ~26% y/y to ~Rs2.3bn. Sequentially, the toll collection moderated ~4%, likely on account of the subsiding of pre-festival commercial traffic in Q3 FY21.
  - Collection was up y/y across the portfolio with the highest growth (~36% y/y) at Bareily-Almora (~6% of the total) followed by ~27% y/y for the Kanpur-Ayodhya OMT project (~50% of the total). Toll collection at Kanpur-Kabai (~13% of the total) was up a strong ~26% y/y. Gwalior-Bhind (~6% share) was ~24% y/y higher.
  - Ghaziabad-Aligarh's ~21% y/y growth was the weakest of all the BOT-toll assets; (it contributed ~26% of the total).

Fig 8 – BOT toll income*

(Rsm)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	% Y/Y	% Q/Q
Gwalior-Bhind	131	105	121	108	83	129	133	134	*24.1*	*0.8*
Kanpur-Ayodhya	1,024	827	980	900	723	1,020	1,241	1,140	*26.7*	*-8.2*
Kanpur-Kabrai	243	105	178	234	196	173	250	296	*26.5*	*18.4*
Bareily-Almora	99	90	98	99	78	107	140	135	*36.4*	*-3.2*
Ghaziabad-Aligarh	550	505	543	490	276	513	629	594	*21.2*	*-5.6*
Total	2,047	1,632	1,920	1,831	1,356	1,943	2,393	2,299	***25.6***	***-3.9***

Source: Company ** Excluding two operational BOT-Annuity assets and operational hybrid annuity*

  - Largely on account of the recovery in toll-fee income at the operational portfolio, partly supported by the hybrid annuity projects with PCOD and the recognition of the interest component for the hybrid annuities being constructed (on the invested sum), the reported ~Rs2.5bn BOT-toll/annuity segment revenue was ~33% higher y/y (though q/q down ~2%).

Fig 9 – Consolidated financials – Segment highlights

(Rsm)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	% Y/Y	% Q/Q
Segment revenues										
Contract	13,161	11,706	11,997	11,593	9,053	10,288	13,200	16,141	*39.2*	*22.3*
Toll/Annuity	2,085	1,704	1,907	1,874	1,875	2,197	2,550	2,502	*33.5*	*-1.9*
Total	15,245	13,409	13,904	13,467	10,928	12,485	15,749	18,643	***38.4***	***18.4***
Segment margins (%)										
Contract	11.3	17.7	9.5	10.4	10.2	8.3	11.5	10.7	-	-
Toll/Annuity	50.1	55.5	46.3	52.9	63.7	57.7	57.7	63.7	-	-
Blended	21.5	26.3	16.0	18.5	22.2	18.8	21.2	19.0	**-**	**-**

Source: Company

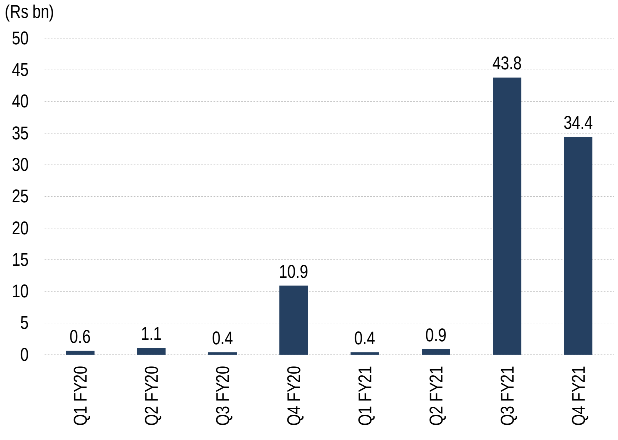
  - The segment margin of ~64% was 11ppt better y/y and seems attributable to a mix of y/y higher scale and revenues booked under the service-concession agreement.
  - The reported BOT-toll/annuity segment includes financials for the two annuity assets, three BOT toll, one OMT contract and one hybrid annuity asset, but excludes the minority-owned Ghaziabad-

Aligarh. Financials also include revenues booked under service-concession agreements for the hybrid annuities being constructed.

Inflows / order backlog

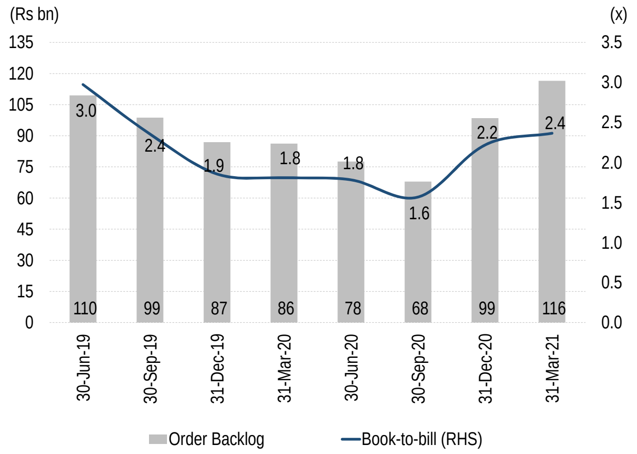
- Adding to the healthy additions in 9M FY21, PNC bagged more water-supply orders in Uttar Pradesh, of ~Rs24.8bn (PNC's share ~Rs23.5bn). These new orders in Q4 took the FY21 EPC potential added to ~Rs72bn (PNC's share in ~Rs74bn).
  - The FY21 additions were no mean feat, but the absence of any additions in Feb-Mar'21 meant it missed its full-year order addition guidance of Rs100bn.
  - The year also stands out as it marked PNC's entry into newer segments, with a~Rs10bn irrigation order in Andhra Pradesh, and three water-supply orders in Uttar Pradesh, with PNC's share of aggregate EPC potential of ~Rs35.3bn (in a total of ~Rs37.2bn).
  - FY21 inflows bear testimony to management's efforts to diversify and further broadbase its OB (incl. orders yet not a part of the firm OB, non-roads OB at ~Rs45bn; PNC's share); geographically as well as segment-wise.
- Largely on inclusion of the EPC potential for its latest hybrid annuity project (secured in Jun'20), the AP irrigation order and the first of its water-supply orders in Uttar Pradesh, the end-Q4 FY21 firm OB was up ~Rs18bn sequentially (net of the quarter's execution) to ~Rs116bn. This implied a book-to-bill of ~2.4x TTM construction revenues.
  - Including the orders that were still not a part of the OB on 31st Mar'21 (PNC's share of EPC potential estimated at~Rs48bn), the OB jumps to ~Rs165bn and the book-to-bill to ~3.3x TTM construction revenues.

Fig 10 – FY21 gross orders added of ~Rs77bn, PNC's share of EPC potential at ~Rs72bn; FY22 targeted at ~Rs80bn



Source: Company Note: Including change in scope of works, and basis incl. in firm OB

Fig 11 – End-Mar'21 firm OB: ~Rs116bn;incl. orders not a part of end-Mar'21 OB: ~Rs165bn



Source: Company

  - The orders that were not a part of the year-end OB comprised two NHAI road EPC orders (combined: ~Rs15bn) and two Uttar Pradesh water supply orders of ~Rs33bn (PNC's share in ~Rs34.3bn total potential). The two NHAI orders have subsequently been appointed, and management expects the two water-supply orders to attain appointed dates in another two months.

- Buoyed by healthy bid prospects and the government's continued focus on infrastructure spending to boost the overall economy, management expects to add more ahead. Its focus would remain firmly on the roads sector for the foreseeable future.
- Given this, it targets FY22 order additions at ~Rs80bn. For this, its eyes are set on road and highway projects, mainly from the NHAI.
    - To this effect, it has already placed bids for 11 road EPC orders (combined: ~Rs45bn), and bids have also been placed for three hybrid annuity projects with a total potential of ~Rs35bn.
- On adding the ~Rs37bn water-supply projects in Uttar Pradesh (PNC's share of EPC value: ~Rs35.3bn) and the ~Rs10bn irrigation order in Andhra Pradesh, the company's gross executable potential is fairly diversified, with non-road orders contributing ~28%.
    - Earlier, management highlighted that it intends to first consolidate its position and turn the recently-won non-road orders operational before looking at more non-road order additions.
    - It had also said that these projects would entail margins in line with its secular guidance of ~13.5–14%.
    - Earlier it had said that, once it gets a better handle on its water & irrigation projects, it would look to add more such orders. It had shown this intent by taking up water-supply orders in Rajasthan and Madhya Pradesh. Payments were not envisaged to be an issue as they are equally split between the states and the Central government.
- Management is not looking at any other segment besides roads and water & irrigation. It had earlier said it might consider airport runway projects should an opportunity present itself.

Update on hybrid annuity projects

- **Hybrid annuity portfolio, at eleven.** PNC's hybrid annuity portfolio consists of eleven projects. Of these, it has received PCOD for four and, with the recent appointment of the five hybrid annuity projects, all the balance seven assets are now under construction.
- **Project statuses.** Of the eleven hybrid annuity projects, discussions can take place under two broad heads:
    - **Completed projects.** With PCOD for three more projects in Jun'21, four from the portfolio of eleven are already operational now, and have turned yielding. Up to end-Q3, only one asset, Dausa-Lalsot, was operational.
    - **Under-construction projects.** Of the seven hybrid annuity projects under construction, the Jhansi-Khajuraho Package-II is expected to attain PCOD by Oct'21, and Chakeri-Allahabad is likely to attain PCOD by end-FY22. It recently received appointed dates for five hybrid annuity projects (incl. 25th Jan'21 for the long-delayed Challakere-Hariyur project). The other four projects, were appointed with effective dates between Mar and May'21.
- **Way forward.** With four of the eleven assets already operational, and two more likely to attain PCOD this year, a gradual commissioning renders these assets lucrative to prospective buyers; hence monetisation efforts could gain further momentum.
- **Finance costs.** With PCOD, construction risk has been taken care of, and that sets the stage for lower finance costs (likely after the first annuity

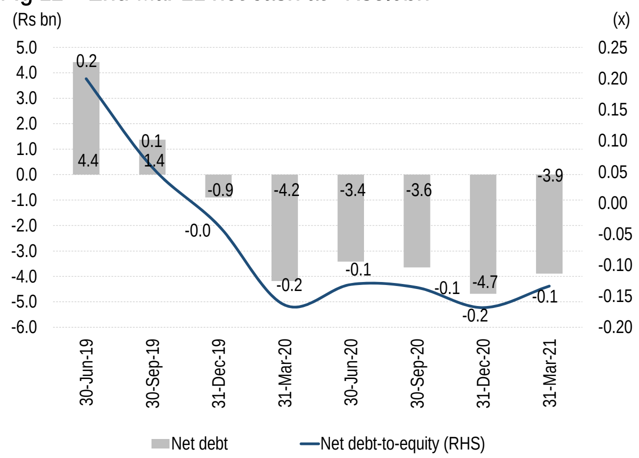
receipt). Management could look at the option of re-financing if finance costs are not brought down by existing lenders.

- **Equity infusion.** The equity required, for all the eleven hybrid annuity assets together, is pegged at ~Rs14.68bn.
  - **Seven older assets.** For its older hybrid annuities, management requires equity of ~Rs8.48bn. Of this, it has infused ~Rs5.64bn, incl ~Rs0.22bn in Q4 (FY21: ~Rs1.2bn).
  - **Four newer assets.** Management estimates these recently-bagged projects to entail equity infusion of ~Rs6.2bn. Of the total, the company has cumulatively infused ~Rs0.35bn in these assets (~Rs0.34bn in Q4).
  - **Infusion schedule.** Of the balance estimated ~Rs8.7bn, it looks to infuse~Rs3.5bn in FY22 and ~Rs3.2bn in FY23, with the balance thereafter. This is subject to construction progress.

Balance sheet

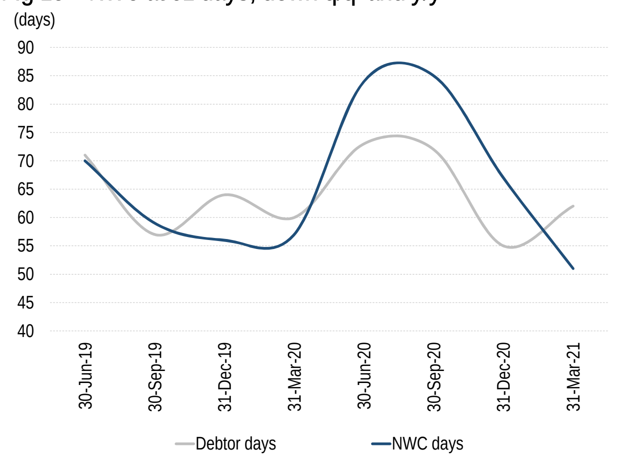
- **Net cash status held**. The greater scale of operations (and consequent working capital needs), equity infusion in hybrid annuities and capex, all came together to shrink the standalone net cash balance ~Rs0.8bn q/q to ~Rs3.9bn. Nevertheless, the balance sheet is still in shape to deliver growth in the short to medium term.
  - Equity infusion needs in the quarter were ~Rs0.6bn, and the capex spend is estimated at ~Rs0.25bn. These two largely explain the decline in net cash, and imply that internal accruals otherwise sufficed to take care of working capital needs for the greater scale
  - The q/q lower net cash balance is partly explained by the ~Rs0.3bn q/q higher standalone gross debt (at ~Rs4bn on 31st Mar'21); the balance was on account of ~Rs0.4bn q/q lower cash and equivalents (~Rs7.8bn).
  - The end-Mar'21 gross debt is entirely for equipment finance. There were no loans for working capital.

Fig 12– End-Mar'21 net cash at ~Rs3.9bn



Source: Company

Fig 13– NWC at 51 days; down q/q and y/y



Source: Company

- **Working-capital cycle at 51 days; down q/q and y/y**. Notwithstanding the protracted receivables cycle (seven days q/q and two days y/y to 62), the net working-capital cycle still was 16 days shorter q/q (and six days y/y). The sequentially contracted NWC seems a function of higher mobilisation advances, and y/y on account of the protracted payables cycle.

- **SPV debt down slightly.** On 31st Mar'21, debt at SPVs (incl. Ghaziabad-Aligarh, ineligible for consolidation) was ~Rs45bn, a ~Rs0.18bn net decline q/q on the back of repayments by the operational BOT-toll/annuity SPVs but partly restricted by the fresh drawdowns by the hybrid annuity projects.
  - For its operational BOT-toll/annuity assets, debt contracted ~Rs.1.15bn, but there was ~Rs0.97bn of drawdowns by the hybrid annuity projects.
  - Of the total SPV debt, ~Rs9.6bn arose from the under-construction hybrid annuity assets, ~Rs16.8bn is due for hybrid annuity assets with PCODs in place now, and ~Rs18.6bn was attributable to the operational BOT-toll/annuity assets.
- **Mobilisation advances.** These were ~Rs2.6bn on 31st Mar'21, up from ~Rs1.6bn at end-Q3. The mobilisation advances have mostly been availed of by the hybrid annuity projects as these carry lower interest cost. Management does not intend to draw down mobilisation advances from the EPC orders owing to relatively higher interest costs. It would prefer to utilise its own cash to fund the execution of EPC orders.

Guidance

- Taking a cue from sturdy additions of ~Rs77bn in FY21 (PNC's share of the EPC potential of ~Rs72bn), management looks to further build on this, and is eyeing ~Rs80bn of additions in FY22. It expects to receive projects in EPC, hybrid annuity projects and water supply.
- Management highlights that the second wave of Covid has not made operations suffer to the extent suffered due to the first wave and, with the scale of operations likely to benefit from the sturdy OB FY22, revenue growth guidance is pegged at ~20%. However, this is subject to no further Covid-led disruptions.
- On the core construction EBITDA margins, management maintained its guidance at ~13.5–14%. On the recent commodity price pressure cutting into margins, the company stated that all of its projects have escalation clauses in place, which will help mitigate the pressure.
- For FY22, the company has guided to ~Rs1.25bn capex. This is against ~Rs1.2bn capex in FY21.
- With 80-IA benefits exhausted, and MAT credit already utilised, management guides to an effective tax rate of 28.5% for FY22.

Other highlights

- **Ghaziabad-Aligarh monetisation.** Continuing with its efforts to free its capital employed in the Ghaziabad-Aligarh BOT-toll project, PNC, along with its wholly-owned subsidiary, PNC Infra Holdings and other partners/promoters, have entered into a share-purchase agreement (SPA) with Cube Highways for the sale of the 100% stake held by all the partners/promoters in Ghaziabad-Aligarh Expressway Pvt. Ltd., the concessionaire (SPV) for the BOT-toll project.
  - It has received NOCs from all the lenders (ten) and expects to receive from the NHAI in a month or two the NOC for change in ownership.

  - PNC's total exposure to the project (incl. EPC dues, equity infused, and sub-debt) is pegged at ~Rs4.1bn. With it hopeful of realising claims from the NHAI toward the revenue loss, management does not see any writedowns to the exposure.

- **Asset monetisation efforts commenced.** Monetisation efforts remain underway for other assets (BOT-toll and hybrid annuity projects) as well, and have been making gradual progress.
  - Management said it has commenced discussions with a few prospective buyers. Valuations for the projects are being finalised and are expected to be completed in the next one month, post which due diligence will begin.
  - With PCOD in place for four of its eleven hybrid annuity projects, and two more expected to attain PCOD in FY22, the offering could be lucrative to prospective buyers (since construction risk has been taken care of) and, thus, monetisation efforts could gather pace.
  - Management expects the efforts to bear fruit in FY22.

- **Impact of raw material price rises.** On the steep rise in prices of steel and cement (its raw material inputs), management said that most of its contracts include price-escalation clauses. The company does not expect any material impact on profitability.

Earnings revision, Valuation

Accounting for the earlier-than-expected appointed dates for some of its projects and the consequent advancing of revenues to FY21 estimated by us for FY22, we lower our FY22e revenue ~3%. On the rub-off, FY23e revenues are 2% lower. However, taking actuals into account we have raised our FY22e and FY23e margins. The effective FY22 tax rate has been raised (to ~28.5% against the earlier estimated ~25.6%, on management guidance). Taking all the above into account, our FY22e earnings are ~1% lower, but ~4% higher for FY23.

On our revised estimates, we value the core construction business at 12x PE multiple for FY23. The exposure to asset-ownership has been valued using a mix of DCF and an equity-invested approach for hybrid annuities. Resultantly, the construction business is valued at Rs268 a share and the asset ownership at Rs55. The per-share target price works out to Rs323, up from Rs311 earlier.).

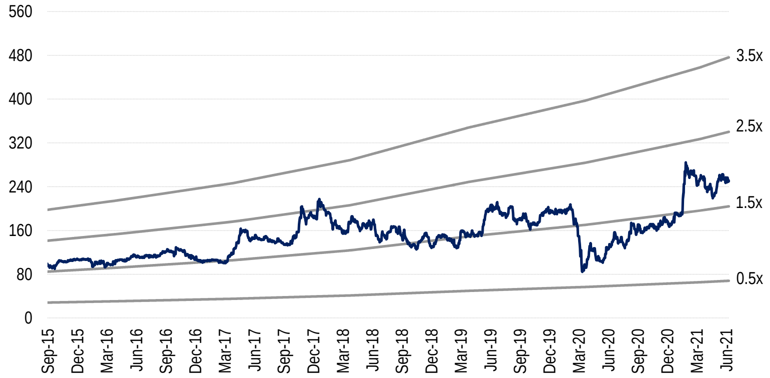
Fig 14 – Estimates revision

(Rsm)	Old estimates		Revised estimates		Change (%)	
	FY22	FY23	FY22	FY23	FY22	FY23
Revenue	61,323	71,747	59,196	70,532	*-3.5*	*-1.7*
EBITDA	8,143	9,478	8,008	9,466	*-1.7*	*-0.1*
EPS (Rs)	18.4	21.4	18.2	22.3	*-1.2*	*4.5*

Source: Anand Rathi Research

At the ruling price, the stock (excl. investments) quotes at PERs of 11.6x FY22e and 9.5x FY23e. On P/BV, it trades at 1.9x FY22e and 1.6x FY23e, against our Rs323 target price-implied exit P/BV of 2.1x.

Fig 15 – PBV band



Source: Bloomberg, Anand Rathi Research

Risks

- Significant delay in orders won
- Failure to exercise financial prudence.

Appendix

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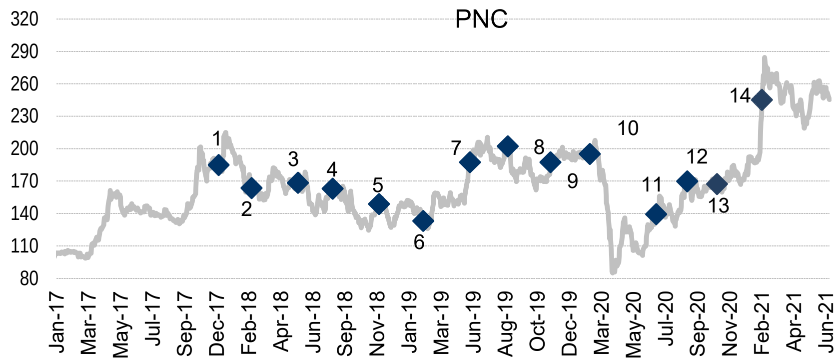
Rating and Target Price History (as of 29 June 2021)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	11-Dec-17	Buy	237	188
2	19-Feb-18	Buy	211	168
3	28-May-18	Buy	219	169
4	10-Aug-18	Buy	213	164
5	17-Nov-18	Buy	194	150
6	18-Feb-19	Buy	199	137
7	28-May-19	Buy	250	187
8	16-Aug-19	Buy	252	204
9	15-Nov-19	Buy	256	188
10	6-Feb-20	Buy	277	196
11	27-Jun-20	Buy	202	139
12	31-Aug-20	Buy	205	169
13	4-Nov-20	Buy	210	169
14	6-Feb-21	Buy	311	245

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