



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 246	
Price Target: Rs. 300	↔

↑ Upgrade
↔ Maintain
↓ Downgrade

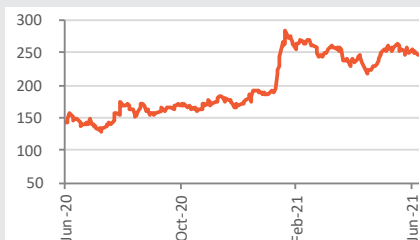
## Company details

Market cap:	Rs. 6,311 cr
52-week high/low:	Rs. 291 / 127
NSE volume: (No of shares)	1.2 lakh
BSE code:	539150
NSE code:	PNCINFRA
Free float: (No of shares)	11.3 cr

## Shareholding (%)

Promoters	56.1
FII	10.8
DII	27.7
Others	5.4

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-4.8	-5.6	43.8	73.6
Relative to Sensex	-6.3	-10.8	33.0	22.8

Sharekhan Research, Bloomberg

## PNC Infratech Limited

Keeping up the execution track record

Infrastructure

Sharekhan code: PNCINFRA

Result Update

## Summary

- Standalone execution was better than expected in Q4FY2021, while net earnings were in line with estimates owing to a higher effective tax rate.
- The company is eyeing a 20% y-o-y revenue growth, OPM of 13.5-14% and order inflows of Rs. 8000-9000 crore for FY22. The order book at Rs. 16,623 crore, 3.4x TTM revenues provides strong revenue visibility.
- Company is in discussions with respect to asset divestment and expects valuation to be arrived within a month post which due diligence is expected to start.
- We retain a Buy rating on PNC Infratech Limited (PNC) with an unchanged price target of Rs. 300, owing to a strong order book and healthy earnings growth outlook.

PNC Infratech Limited (PNC) reported better-than-expected standalone execution for Q4FY2021 with OPM broadly in-line with estimates. However, a higher effective tax rate kept standalone net profit in line with estimates. Standalone revenues grew 42% y-o-y to Rs. 1644 crore which was higher than our estimate. The OPM expanded by 63 bps y-o-y to 14.1%, leading to a 48.7% y-o-y rise in operating profit at Rs. 232.4 crore. Further, lower interest costs (led by lower mobilization advance availed only for HAM projects at 4.25% from NHAI versus 8-10% for EPC projects), higher other income (up 7% y-o-y), and lower depreciation led to an 89.1% y-o-y rise in profit before tax at Rs. 205 crore. However, a higher effective tax rate (36.8% versus 29.7% in Q4FY2020) led to 70% y-o-y rise in net profit at Rs. 129 crore, which was in line with our estimate. PNC received strong order intake of Rs. 7,677 crore during FY2021 (over Rs. 3700 crore projects bagged in Q3). The company is eyeing inflows of Rs. 8000-9000 crore of orders (it has bid for Rs. 8000 crore projects of which EPC comprise 11 projects of Rs. 4500 crore and 3 HAM projects worth Rs. 3,500 crore) during FY2022. Considering the projects in which it has received Letter Of Awards, the company's order book stands at Rs. 16,623 crore (3.4x TTM standalone revenues) providing strong revenue visibility over the next two years. The management has guided for a 20% y-o-y growth in standalone revenues for FY2022 with 13.5-14% OPM, not considering a third wave of COVID-19 infections. PNC has also diversified into the irrigation and water supply sectors, which on an aggregate form ~28% of the order book. However, road projects would remain the company's main focus area. The company received PCoD for three projects in June 2021 while expects one project to receive in October 2021 and one by end of FY2022. The company has shown a decrease in standalone net cash surplus by Rs. 79 crores and increase in consolidated net debt by Rs. 472 crore during Q4. Further, debtors' days increased to 62 days from 55 days in Q3FY2021 and working capital days reduced to 51 days from 67 days in Q3FY2021. The company is in discussions with 2-3 investors for asset sale. It expects valuation to be arrived within one month post which due diligence would start. For the Aligarh-Ghaziabad project, for which it had signed share purchase agreement on April 1, 2021 with Cube, it expects to receive an NoC from NHAI for change of ownership by month end. We have fine-tuned our estimates for FY2022E-FY2023E factoring a higher execution run-rate and lower OPM. PNC's strong order backlog is expected to lead to strong 22% CAGR in net earnings over FY2021-FY2023E. Hence, we retain our Buy rating on the stock with an unchanged price target of Rs. 300.

## Key positives

- PNC continued to report strong execution.
- Robust order book offers strong revenue visibility.
- Strong cash & cash equivalents at both standalone and consolidated levels.

## Key negatives

- Delay in asset monetisation plan.

## Our Call

**Valuation –Retain Buy with an unchanged price target of Rs. 300:** We believe PNC is one of the best picks in the road development sector on account of its strong execution capabilities, healthy balance sheet, robust order book and prudent capital management. The company is one of the key beneficiaries of the government's continuous thrust on road sector. The company has been strengthening its balance sheet with rising cash balances and improving working capital levels. Further, fructification of asset divestment would further aid in strengthening its healthy balance sheet. We have fine tuned our estimates for FY2022E-FY2023E factoring higher execution run-rate and a lower OPM. PNC's strong order backlog is expected to lead to strong 22% CAGR in net earnings over FY2021-FY2023E. Hence, we retain a Buy rating on the stock with an unchanged price target of Rs. 300.

## Key Risks

Delay in execution of projects or inability to sustain operating margin remain key risk to our call.

## Valuation (Standalone)

	Rs cr			
Particulars	FY20	FY21	FY22E	FY23E
Revenue	4,877.9	4,925.4	5,852.0	6,764.6
OPM (%)	15.7	13.7	13.7	14.1
Adjusted PAT	349.6	361.9	433.6	536.3
% YoY growth	50.6	3.5	19.8	23.7
Adjusted EPS (Rs.)	13.6	14.1	16.9	20.9
P/E (x)	18.1	17.4	14.6	11.8
P/B (x)	2.4	2.1	1.9	1.6
EV/EBIDTA (x)	8.2	9.3	7.8	6.6
RoNW (%)	15.0	13.3	13.9	15.0
RoCE (%)	16.8	13.9	14.6	15.5

Source: Company; Sharekhan estimates

## Better-than-expected execution; PAT in-line due to higher tax

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## Healthy growth outlook and asset monetization plans

PNC received strong order intake of Rs. 7,677 crore during FY2021 (over Rs. 3700 crore projects bagged in Q3). The company is eyeing inflows of Rs. 8000-9000 crore of orders (it has bid for Rs. 8000 crore projects of which EPC comprise 11 projects of Rs. 4500 crore and 3 HAM projects worth Rs. 3,500 crore) during FY2022. Considering the projects in which it has received Letter Of Awards, the company's order book stands at Rs. 16,623 crore (3.4x TTM standalone revenues) providing strong revenue visibility over the next two years. The management has guided for a 20% y-o-y growth in standalone revenues for FY2022 with 13.5-14% OPM, not considering a third wave of COVID-19 infections. PNC has also diversified into the irrigation and water supply sectors, which on an aggregate form ~28% of the order book. However, road projects would remain the company's main focus area. The company received PCoD for three projects in June 2021 while expects one project to receive in October 2021 and one by end of FY2022. The company has seen a decrease in its standalone net cash surplus by Rs. 79 crore and increase in consolidated net debt by Rs. 472 crore during Q4FY21. Further, debtors' days increased to 62 days from 55 days in Q3FY2021 and working capital days reduced to 51 days from 67 days in Q3FY2021. The company is in discussions with 2-3 investors for an asset sale. It expects valuation to be arrived within a month post which due diligence would begin. For the Aligarh-Ghaziabad project for which it had signed share purchase agreement on April 1, 2021 with Cube, it expects to receive an NoC from NHAI for change of ownership by month end.

## Key Conference call takeaways

- ♦ **Guidance:** The company eyes 20% y-o-y revenue growth for FY2022 not considering the possibility of third wave of COVID-19. OPM is expected to be 13.5-14%. It does not expect much impact of commodity price rise owing to presence of inflation clause in HAM and EPC projects. The company expects Rs. 8000-9000 crore order inflows for FY2022. The company will focus on roads and highways projects and will not be bidding for high speed or elevated metro projects due to high competition. It has already forayed into Jal Jeevan Mission projects with a JV and having 95% stake.
- ♦ **Industry update:** The MoRTH targets construction of Rs. 15 lakh crore projects over next two years. Under National Infrastructure pipeline, 7300 infrastructure projects totalling Rs. 111 lakh crore are to be executed by FY2025. Project awards stood at 10965 km in FY2021 versus 8948 km in FY2020. NHAI awarded 141 projects (2 BOT, 69 HAM, 70 EPC) totalling 4788 km in FY2021. NHAI plans to award Rs. 2 lakh crore projects in FY2022. The toll collection reached 97% by March 2021. The toll revenues are expected to increase from July 2021.
- ♦ **Asset divestment:** The company is in discussions with two to three investors for asset sale. It expects valuation to be arrived within one month post which due diligence would start. For Aligarh Ghaziabad project for which it had signed share purchase agreement on April 1, 2021 with Cube, it expects to receive NoC from NHAI for change of ownership by month-end. The company has invested Rs. 410 crore in the project and does not expect much variation in getting the amount.
- ♦ **Equity investment:** The equity requirement for 11 operational projects is Rs. 1460 crore, out of which it has invested Rs. 600 crore as of March 2021. The balance Rs. 860 crore would be invested over next two to three years from internal accruals.
- ♦ **Order book:** The company received Rs. 7,677 crore order inflows during FY2021. Including the projects pending appointed dates, the current order book stands at Rs. 16500 crore (27% road EPC, 45% HAM, 28% water).

- ♦ **Leverage:** Standalone network stood at Rs. 2908 crore, debt Rs. 399 crore, cash Rs. 788 crore, Net cash Rs. 389 crore and net debt to equity at 0.14x. The consolidated net worth stood at Rs. 3053 crore, debt Rs. 4188 crore, cash Rs. 1402 crore, net debt to equity at 1.37x.
- ♦ **Capex:** The company incurred a capex of Rs. 119 crore in FY2021 and will incur a capex of Rs. 125 crore in FY2022.
- ♦ **Fund & non-fund limits:** The fund based limits is Rs. 1000 crore out of which there is nil utilisation. The non-fund based limit is Rs. 5000 crore out of which it has utilised Rs. 2800 crore. Retention money stood at Rs. 200 crore while unbilled revenue is negligible.
- ♦ **Pending arbitration:** The company has 3-4 projects under arbitration with a value of Rs. 1000 crore majorly with NHAI.
- ♦ **Mobilisation advance:** The company has a Rs. 255 crore mobilisation advance at a rate of 4.25% for HAM projects from NHAI. It is not taking advance for EPC projects as interest rate is 8-10%.
- ♦ **Receivables:** Out of Rs. 839 crore receivables, Rs. 559 crore are SPV debtors.

Result Snapshot (Standalone)

					Rs cr
Particulars	Q4FY2021	Q4FY2020	Y-o-Y %	Q3FY2021	Q-o-Q %
Net sales	1644.3	1157.9	42.0%	1322.4	24.3%
Other income	17.1	15.9	7.0%	24.3	-29.6%
Total income	1661.3	1173.9	41.5%	1346.7	23.4%
Total expenses	1411.9	1001.6	41.0%	1143.9	23.4%
Operating profit	232.4	156.3	48.7%	178.5	30.2%
Depreciation	30.0	32.4	-7.3%	28.2	6.5%
Interest	14.8	31.6	-53.3%	15.3	-3.1%
Profit Before Tax	204.7	108.3	89.1%	159.4	28.4%
Taxes	75.3	32.2	133.9%	56.2	34.0%
PAT	129.4	76.1	70.1%	103.2	25.4%
Exceptional items	0.0	0.0		0.0	
Adj. PAT	129.4	76.1	70.1%	103.2	25.4%
No of equity shares	25.7	25.7	0.0%	25.7	0.0%
EPS (Rs.)	5.0	3.0	70.1%	4.0	25.4%
<b>Margin (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM (%)	14.1%	13.5%	63	13.5%	63
NPM (%)	7.9%	6.6%	130	7.8%	7
Tax rate (%)	36.8%	29.7%	705	35.3%	152

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector view – Roads to remain one of key focus areas in government's infrastructure spending

The government's infrastructure investment is pegged at Rs. 111 lakh crore over FY2020-FY2025. The road sector is expected to witness Rs. 20 lakh crore investments in the same period. Significant investments along with favourable government policies is expected to provide strong growth opportunities for industry players. The road sector is recovering, with manpower strength and availability of materials nearing pre-COVID levels post easing of lockdown restrictions in the country. The industry is expected to see strong order inflows and an improvement in execution run-rate from Q3FY2021 onwards. Working capital issues of the companies have been handled by proactive payments from the NHAI.

### ■ Company outlook - Strong growth outlook over FY2021-FY2023

The company is eyeing inflows of Rs. 8000-9000 crore of orders (it has bid for Rs. 8000 crore projects of which EPC comprise 11 projects of Rs. 4500 crore and 3 HAM projects worth Rs. 3500 crore) during FY2022. Considering the projects in which it has received Letter Of Awards, the company's order book stands at Rs. 16,623 crore (3.4x TTM standalone revenues) providing strong revenue visibility over the next two years. The management has guided for a 20% y-o-y growth in standalone revenues for FY2022 with 13.5-14% OPM, not considering a third wave of COVID-19 infections. PNC has also diversified into the irrigation and water supply sectors, which on an aggregate form ~28% of the order book. However, road projects would remain the company's main focus area.

### ■ Valuation - Retain Buy with an unchanged price target of Rs. 300

We believe PNC is one of the best picks in the road development sector on account of its strong execution capabilities, healthy balance sheet, robust order book and prudent capital management. The company is one of the key beneficiaries of the government's continuous thrust on road sector. The company has been strengthening its balance sheet with rising cash balances and improving working capital levels. Further, fructification of asset divestment would further aid in strengthening its healthy balance sheet. We have fine-tuned our estimates for FY2022E-FY2023E factoring higher execution run-rate and a lower OPM. PNC's strong order backlog is expected to lead to strong 22% CAGR in net earnings over FY2021-FY2023E. Hence, we retain a Buy rating on the stock with an unchanged price target of Rs. 300.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
PNC Infratech	14.6	11.8	7.8	6.6	1.9	1.6	13.9	15.0
KNR Constructions	19.6	16.0	10.6	8.8	2.8	2.4	15.7	16.5

Source: Sharekhan Research

## About company

PNC is an infrastructure construction, development, and management company, with expertise in the implementation of projects including highways, bridges, flyovers, airport runways, industrial areas, and power transmission lines. The company provides engineering, procurement, and construction (EPC) services on a fixed-sum turnkey basis as well as on an item rate basis. Quite a few of the projects it executes and implements are on Design-Build-Finance-Operate-Transfer (DBFOT), Operate-Maintain-Transfer (OMT), and Hybrid Annuity Models (HAM). Since its corporatisation in 1999, it has executed 66 major infrastructure projects spread across 13 states, of which 43 are road EPC projects. Currently, PNC has six BOT projects (both toll and annuity) and one OMT project, which are operational. The company has 11 HAM projects, of which five are under construction, one project has received PCOD, one project has financial closure achieved, and four projects are awaiting appointed dates.

## Investment theme

PNC is one of the best picks in the road development sector on account of its strong execution capabilities, healthy balance sheet, robust order book, and prudent capital management. PNC has in-house manufacturing capabilities providing it the ability to execute projects on time. The company's strong order book along with expected order inflows during FY2021 is expected to lead to strong earnings bounce back in FY2022. The company is also looking at monetising its assets, which would further lighten its balance sheet and free up equity capital for future projects.

## Key Risks

- ♦ Delay in the execution of projects affects net earnings.
- ♦ Weak macro environment leading to low visibility of project tendering affects business outlook.
- ♦ Increased interest rates, commodity prices, and tightening liquidity are inherent business risks.

## Additional Data

### Key management personnel

Mr. Pradeep Kumar Jain	Chairman & MD
Mr. Naveen Kumar Jain	Promoter
Mr. Chakresh Kumar Jain	Managing Director & CFO
Mr. Yogesh Kumar Jain	Managing Director

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	NCJ INFRASTRUCTURE PVT LTD	9.65
2	Jain Yogesh Kumar	8.53
3	HDFC Asset Management Co. Ltd.	8.38
4	Jain Pradeep Kumar	8.03
5	JAIN NAVIN KUMAR	7.05
6	JAIN MADHAVI	7.02
7	ICICI Prudential Asset Management	4.98
8	Jain Chakresh Kumar	4.59
9	JAIN VAIBHAV	4.55
10	JAIN ASHITA	3.07

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



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by BNP PARIBAS

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