

July 12, 2021

Strong YoY growth on washout base; sequential decline amid second wave...

We expect strong YoY revenue growth for construction companies driven by a depressed base, albeit a decline on a QoQ basis on account of the second wave. For real estate companies, sales volumes are expected to come off sequentially, though much better than washout base of Q1FY21.

Sales volume to decline QoQ amid second wave lockdowns

We anticipate residential sales momentum to take a breather in Q1FY22E owing to second wave. On a medium term, triggers such as pent up demand, benign interest rates, launches will continue to boost momentum, going ahead. We bake in ~62%, ~80% QoQ decline in sales volumes of Brigade, Oberoi Realty, respectively. On the leasing front, new leasing activity is likely to remain on the back burner with continued work from home scenario. The hospitality and retail segment is likely to show weakness as lockdowns will impact occupancies and footfalls, respectively.

For Kajaria, we expect tiles sales volumes to witness strong growth of 112% YoY (albeit decline of 36% QoQ on account of second wave) on a depressed base. We expect overall revenues to grow ~121% YoY to ₹ 613.8 crore. We expect positive EBITDA margins vs. loss in Q1FY21 but down 700 bps QoQ due to QoQ negative operating. Overall, we expect the bottomline at ₹ 41.6 crore, (vs. loss in Q1FY21 and down 67% QoQ).

Order inflows, execution impacted by second wave

Order inflows across the construction universe were impacted owing to the second wave. PNC Infratech and KNR Construction did not announce any new orders during the quarter. NCC received order inflows worth ₹ 2383 crore during the quarter, across building water and mining division. HG Infra secured a road EPC project in July, 2021 worth ₹ 1393 crore, Ashoka Buildcon, on the other hand, won orders worth ₹ 1949 crore, during the quarter spread across railways, housing and road EPC.

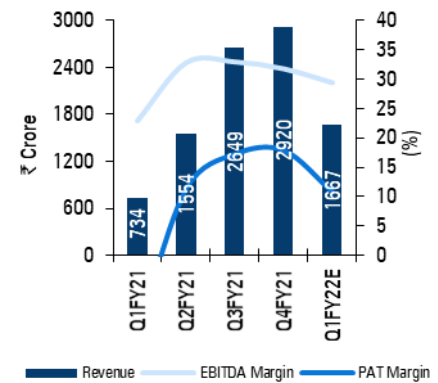
On the execution front, we expect construction companies to witness robust growth YoY on a washout base (our coverage topline was down ~36% in Q1FY21). On a QoQ basis, however, decline of ~29% is expected to be witnessed owing to lower efficiencies amid second wave. On an overall basis, we expect our road & construction universe to post revenue growth by 56.6% YoY to ₹ 5378 crore. The reported EBITDA margin of our universe is expected to contract 40 bps YoY to 13% as base quarter had some one-offs. Overall, we expect our universe PAT to grow 78.1% YoY to ₹ 356.3 crore, driven by a robust operating performance.

Exhibit 1: Estimates for Q1FY22E: (Real Estate & Building Material) (₹ crore)

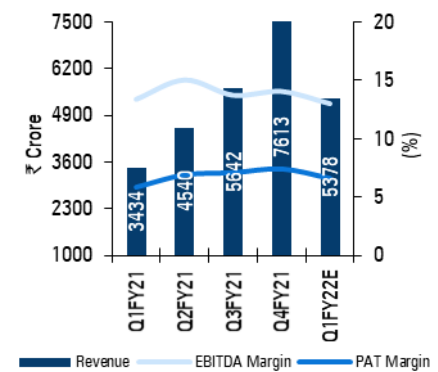
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Oberoi Realty	405.0	243.2	-48.7	184.3	218.1	-50.6	128.7	358.4	-55.1			
The Phoenix Mills	203.1	50.8	-47.4	100.1	42.4	-42.3	4.7	LP	-92.9			
Brigade Enterprises	445.0	118.9	-43.8	125.3	164.2	-33.6	3.7	LP	-90.7			
Kajaria Ceramics	613.8	121.1	-35.6	79.8	LP	-58.2	41.6	LP	-67.3			
Total	1,666.9	127.2	-42.9	489.4	191.2	-47.2	178.6	LP	-65.6			

Source: Company, ICICI Direct Research

Topline & Profitability (Real Estate Universe)



Topline & Profitability (Infra Universe)



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Exhibit 2: Company Specific Views (Real Estate)

Company	Remarks
Oberoi Realty	We expect sales volumes momentum to be impacted by the second wave in Q1FY22. We bake in sales volumes at ~2.2 lakh sq ft, up ~17.5x YoY on a washout base but down 80% QoQ. On the financial front, we expect topline to grow 243% YoY to ₹ 404 crore. Overall, we expect net income to grow by 3.6x YoY at ₹ 128.7 crore. Key Monitorable: Commentary on sales volumes, progress on new launches
The Phoenix Mills	We expect Phoenix Mills' (Phoenix) revenues to de-grow 47.4% QoQ to ₹ 203.1 crore largely dragged by hospitality segment and retail which was impacted by Covid second wave. At the PAT level, we expect ₹ 4.7 crore, vs. ₹ 65.5 crore in Q4FY21. Key Monitorable: Commentary on post reopening negotiations with tenants and outlook on business ahead
Brigade Enterprises (BEL)	We expect sales volumes to grow ~50% YoY to 6.3 lakh sq ft, on a depressed base, albeit a 62% QoQ decline on account of second wave led disruptions. On the financial front, we expect the topline to grow 118.8% YoY to ₹ 445 crore, on a washout base. The performance is expected to be weak QoQ (down 43.8%) owing to lower revenue recognition in residential, along with hospitality and mall portfolio performance, which were impacted by the second wave, Overall, at the PAT level, we expect ₹ 3.7 crore, loss in Q1FY21. Key Monitorable: Sales volume and outlook ahead
Kajaria Ceramics	We expect tiles sales volumes to witness strong growth of 112% YoY (albeit decline of 36% QoQ on account of second wave) on a depressed base. We expect overall revenues to grow ~121% YoY to ₹ 613.8 crore. We expect EBITDA margins vs. loss in Q1FY21 but down 700 bps QoQ due to sequential negative operating. Overall, we expect the bottomline at ₹ 41.6 crore, (vs. loss in Q1FY21 and down 67% QoQ). Key Monitorables: Management commentary on demand outlook and commentary on gas pricing

Source: Company, ICICI Direct Research

Exhibit 3: Real Estate Coverage Universe

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Oberoi Realty (OBBEREA)	692	640	Buy	25,176	20.3	24.3	27.1	34.1	28.4	25.6	24.2	18.0	17.3	2.6	2.4	2.3	7.9	8.8	9.1
The Phoenix Mills (PHOMIL)	854	950	Buy	14,682	3.1	14.2	33.7	279.1	60.0	25.4	36.1	21.1	13.7	3.0	2.9	2.7	1.1	4.8	10.5
Brigade Enterprises (BRIENT)	325	320	Buy	7,452	-2.2	7.5	16.1	NM	43.3	20.1	22.2	13.6	8.9	2.9	2.9	2.7	NM	6.7	13.2
Kajaria Ceramics (KAJ CER)	987	1,175	Buy	15,715	19.4	26.4	32.7	51.0	37.4	30.2	30.1	23.1	18.7	8.4	7.5	6.7	16.5	20.1	22.1

Source: Company, Bloomberg, ICICI Direct Research

Exhibit 4: Estimates for Q1FY22E: (Roads & Construction)

Company	(₹ crore)								
	Revenue			EBITDA			PAT		
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Ashoka Buildcon	965.0	68.6	-30.4	111.0	35.6	-44.8	91.7	34.8	-38.5
PNC Infratech	1,242.2	37.2	-24.5	167.7	40.0	-27.8	98.5	63.8	-23.9
HG Infra	696.5	133.8	-32.2	108.3	120.3	-35.0	53.8	256.2	-45.0
NCC	1,871.9	58.8	-28.5	205.9	78.1	-28.9	56.4	233.2	-51.2
KNR Construction	602.6	25.7	-35.6	108.7	15.3	-40.3	55.9	40.5	-27.4
Total	5,378.2	56.6	-29.4	701.6	52.3	-34.6	356.3	78.1	-37.3

Source: Company, ICICI Direct Research

Exhibit 5: Exhibit 2: Company Specific Views (Roads & Construction)

Company	Remarks
Ashoka Buildcon	We expect ABL to report topline growth of 68.6% YoY at ₹ 965 crore, on a depressed base (35% YoY decline in Q1FY21). Revenues, however, are expected to see a sequential decline of ~30% QoQ, given the second wave led disruption. EBITDA margins are expected to decline sharply by 280 bps YoY to 11.5%, as the base quarter had certain one-off benefits on account of release of contingencies. We expect PAT growth of 35% YoY to ₹ 91.7 crore. Key Monitorable: Management commentary on execution ahead, margins impact owing to commodity price rise, and status on monetisation of Ashoka Concessions
HG Infra	Revenue during Q1FY22 is likely to grow ~134% YoY to ₹ 696.5 crore, on a washout base of Q1FY21 (down ~43% YoY) and also driven by superior executable order book YoY. QoQ decline of ~32% is likely owing to second wave led lockdown impacts. Operating margin is likely to remain elevated at ~15.5%. At net level, we expect robust operating performance to translate into ~256% YoY bottomline growth. Key monitorable: Management commentary on execution ahead and margin impact owing to commodity price rise
NCC Ltd	We expect topline to grow 58.8% YoY to ₹ 1871.9 crore, on a depressed base (~46% decline in Q1FY21), albeit a sequential decline of 28% due to Covid second wave impact. EBITDA margin is expected at 11%, (up 120 bps YoY on a benign base). The reported PAT is expected to grow ~233% YoY to ₹ 56.4 crore, driven by operating performance. Key Monitorable: Management commentary on order inflows, execution ahead and margins impact owing to commodity price rise, status on Andhra Pradesh orders, receivables and net debt
PNC Infratech	We expect reported topline growth of 37.2% YoY to ₹ 1242.2 crore, though sequential decline of 25% is likely on lower labour efficiency amid Covid second wave. EBITDA margins are expected at 13.5%, up 30 bps YoY. PAT is expected to grow ~63.8% YoY to ₹ 98.5 crore. Key Monitorable: Management commentary on order inflows, execution ahead and margins impact owing to commodity price rise and progress on HAM projects
KNR Constructions	We expect revenues to grow 25.7% YoY to ₹ 602.6 crore, with sequential decline of ~36%. EBITDA margin is expected to contract 170 bps YoY to 18%, given higher base owing to irrigation revenues. Overall, we expect bottomline to grow 40.5% YoY to ₹ 55.9 crore, given healthy operating performance. Key Monitorable: Management commentary on order inflows, execution ahead and margins impact owing to commodity price rise and progress on HAM projects

Source: Company, ICICI Direct Research

Exhibit 6: Road Coverage Universe

Sector / Company	CMP		M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)			
	₹	TP(₹)		Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
KNR Constructions (KNRCON)	242	270	Buy	6,819	8.7	9.2	14.7	27.9	26.4	16.5	11.7	13.8	9.1	3.4	3.0	2.5	13.1	12.2	16.4
PNC Infratech (PNCINF)	310	300	Buy	7,941	14.1	18.6	21.2	21.9	16.6	14.6	10.8	9.1	7.6	2.7	2.3	2.0	12.4	14.2	13.9
Ashoka Buildcon (ASHBUI)	115	110	Hold	3,231	9.8	9.4	11.3	11.7	12.3	10.1	5.7	5.6	5.1	5.2	3.7	2.7	44.6	29.8	26.5
NCC (NAGCON)	95	100	Buy	5,797	4.3	7.9	9.8	22.2	12.0	9.7	7.5	5.8	5.2	0.9	0.9	0.8	4.9	8.4	9.6
HG Infra (HGINF)	496	420	Buy	3,230	32.4	40.0	44.4	15.3	12.4	11.2	7.7	6.3	5.6	3.1	2.5	2.0	20.4	20.3	18.4

Source: Company, ICICI Direct Research, Reuters

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