PNC Infratech (PNCINF)

ICICI direct Research

CMP: ₹ 310 | Target: ₹ 360 (16%) | Target Period: 12 months | BUY

August 13, 2021

In line performance; healthy outlook…

About the stock: PNC Infratech has established itself as a strong executor in roads, water infra and airport runway segments. Additionally, superior execution capabilities via ownership of modern equipment and in-house teams enables it to deliver projects on-time. PNC has executed 70 major infrastructure projects till date.

- Reported 19.8% revenue CAGR in FY16-21. Operating margin was in the range of 13-15%
- Proficient execution, robust return ratios (RoCE: ~20%)

Q1FY22 Results: PNC's numbers were largely in line with our estimates.

- Standalone revenue was up 38.2% YoY to ₹ 1251.2 crore, albeit on the washout base of Q1FY21. On a QoQ basis, topline declined 23.9%
- EBITDA came in at ₹ 175.4 crore, up 46.5% YoY with better project mix with margin at 14% (up 79 bps YoY)
- PAT improved 55.2% YoY to ₹ 93.3 crore

What should investors do? PNC's share price has grown at 21.5% CAGR over the past five years (from ~₹ 117 in August 2016 to ~₹ 310 levels in August 2021).

- We maintain our BUY rating on the company

Target Price and Valuation: We value PNC at ₹ 360/share.

Key triggers for future price performance:

- PNC is likely to be one of the major beneficiaries of thriving roads and water segment (*Jal Jeevan Mission*)
- Strong order book position, receipt of appointed date in most of its projects, and execution pick-up to translate into 19.8% topline CAGR over FY21-23E
- Current order mix with built-in raw material price variation clauses in most of its contracts provides margin sustainability
- Planned monetisation of HAM/annuity assets by FY22 end

Alternate Stock Idea: Besides PNC, we like HG Infra in the EPC space.

- Strong execution and healthy order book
- BUY with a target price of ₹ 675/share

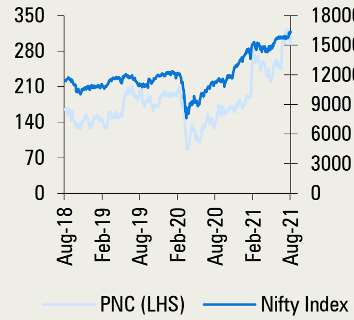
Particulars

Particular	Amount (₹ crore)
Market	7,948.9
Total Debt (₹ crore)	400.0
Cash (₹ crore)	699.0
EV (₹ crore)	7,649.9
52 week H/L (₹)	138/ 332
Equity capital	51.3
Face value	₹ 2

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	56.1	56.1	56.1	56.1
DII	24.2	23.7	27.5	29.1
FIIs	6.1	5.8	10.8	9.3
Other	13.7	14.4	5.6	5.5

Price Chart



Key Risks

Key Risk: (i) Delay in HAM projects execution; (ii) Any working capital stress in water/irrigation projects

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Key Financial Summary

₹ crore	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	3,096.9	4,877.9	4,925.4	19.8%	5,915.3	7,073.3	19.8%
EBITDA	457.3	764.3	672.8	20.4%	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	18.6%	477.7	546.6	22.9%
EPS (₹)	12.7	17.9	14.1		18.6	21.3	
P/E (x)	24.5	17.3	22.0		16.6	14.5	
EV/EBITDA (x)	17.5	9.8	11.1		9.4	7.9	
RoNW (%)	15.4	12.4	12.4		14.2	14.0	
RoCE (%)	16.4	25.3	19.2		20.1	21.0	

Source: Company, ICICI Direct Research

Key business highlight and outlook

Order book robust; targeting ₹ 8,000 crore inflows in FY22E

PNC's order book (OB) at the end of Q1FY22 was at ₹ 12,095 crore. However, this OB excludes water and irrigation projects worth ₹ 3,427 crore wherein the execution is yet to be started. Including these projects, the OB is robust at ~₹ 15,520 crore (OB/TTM revenues: 3x) and provides revenue visibility over the next three years. The order book is well diversified with HAM, EPC, water and irrigation forming 57%, 33%, 10%, respectively. The company expects additional orders worth ₹ 8,000 crore in FY22E, which is likely to strengthen its elevated OB position even further. The key focus would be on road (targeting EPC and HAM projects in equal proportion) 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 likely pick-in execution in water/irrigation projects. We highlight that the company has guided for ~20-25% revenues growth in FY22 and margins in the range of 13.5-14%. Post a flattish FY21, we expect revenues to grow at 19.8% CAGR over FY21-23 to ₹ 7,073 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 ₹ 846 crore (including new HAM projects) over the next two to three years to be aided by healthy internal cash accruals and net cash position.

Key conference call takeaways

- **Industry Outlook and ordering pipeline**: Awarding/construction activities from NHAI, MoRTH was muted in Q1FY22 owing to second wave of Covid-19. However, the management expects activities to pick-up from September 2021 onwards. Competitive intensity in the EPC and HAM projects continues to be at an elevated level mainly for projects having ticket size of <₹ 1,000 crore with large interests from mid and big-sized developers Currently, PNC has submitted bids for 10 EPC and six HAM road projects aggregating to ₹ 11,000 crore. Additionally, 40 projects from NHAI are currently in bidding pipeline and the company is likely to submit tenders for another ₹ 30,000 crore over the next two to three months

- **Water segment**: In the water and irrigation segment, PNC has submitted DPR for 900 villages (overall 3,430 villages) for which the execution is expected to commence (worth ₹ 600-800 crore) from September 2021. For balance projects, the management expects DPR to get approved by Q4FY22-end post which execution is likely to ramp-up. While the management expects significant traction to continue in the water and irrigation segment via Jal-Jeevan mission, PNC's focus remains on execution of water projects (under its current order book position) before bagging incremental projects in the segment.

- **Second wave impact and current status**: While execution during Q1FY22 got impacted by labour availability due to second wave, strength has now improved to desired levels with efficiency at 100%

- **HAM Project status**: PNC has infused ₹ 622 crore equity in its HAM projects by Q1FY22 and has a balance equity requirement of ₹ 846 crore (including new HAM projects). It expects overall equity infusion schedule as: ₹ 350 crore in FY22E, ₹ 319 crore in FY23E and remaining in FY24E. Overall, with healthy internal cash accruals and net cash position, the company can easily fund its remaining equity requirement. PNC has received the appointed date for two EPC projects and one HAM project during Q1FY22

- **Debt and working capital**: PNC's standalone debt was at ₹ 400 crore as of Q1FY22-end, largely for equipment financing with no working capital debt. Cash and bank on PNC's books was at ₹ 699 crore, making the company net cash positive. Net working capital cycle for the company has increased to 103 days (at Q1-end; vs 51 days at Q4FY21-end). It is mainly impacted by higher debtor and lower creditor days

- **Other assets monetisation plan**: PNC is currently in an advanced stage of discussions with potential investors to monetise its six HAM and one BOT-annuity projects (total equity infusion as on date: ₹ 940 crore). The management expects a positive development on these front by FY22-end
- **Aligarh Expressway divestment**: PNC 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 company has already received NOC from all of its lenders for this project, NOC from NHAI side is still pending and is expected to be received by August-end. The company also expects finalisation of deal over the next two to three months. 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
- **Toll collection numbers**: MP highways ₹ 12.6 crore, Kanpur Ayodhya ₹ 101 crore, Kanpur highway ₹ 24 crore, Narela ₹ 10.6 crore, Bareilly Almora ₹ 10.9 crore, Ghaziabad Aligarh ₹ 50.3 crore
- **Early completion & likely bonus**: PNC expects early completion bonus for Purvanchal Expressway - V, VI and Mumbai-Nagpur expressway projects with accomplishment of construction well before its scheduled period
- **Capex:** PNC has incurred capex of ₹ 14 crore during Q1FY22 and has guided for overall capex of ₹ 125 crore in FY22E (~₹ 190 crore in FY21)
- **Tax rate**: The company expects tax rate of 28.5% in FY22.

PNC remains one of 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. We maintain our BUY rating with revised SoTP target price of ₹ 360/share. We value its construction business at ₹ 318/share (at 8x FY23E EV/EBITDA implying ~15x FY23 EPS).

Exhibit 1: Variance Analysis

Particulars	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	1251.2	1242.2	905.3	38.2	1644.3	-23.9	Topline growth led by superior execution
Other Income	17.8	18.0	19.1	-7.1	17.1	4.1	
Net Raw material consumed	885.6	863.3	655.2	35.2	1168.5	-24.2	
Employee benefit expenses	72.9	74.5	43.7	66.7	77.5	-6.0	
Other Expenses	117.3	136.6	86.6	35.5	165.9	-29.3	
EBITDA	175.4	167.7	119.8	46.5	232.4	-24.5	
EBITDA Margin(%)	14.0	13.5	13.2	79 bps	14.1	-11 bps	
Depreciation	31.5	30.0	27.0	16.6	30.0	5.0	
Interest	18.0	15.0	25.3	-28.7	14.8	22.0	
PBT	143.7	140.7	86.6	65.9	204.7	-29.8	
Taxes	50.4	42.2	26.5	90.3	75.3	NM	
PAT	93.3	98.5	60.1	55.2	129.4	-27.9	PAT growth on account of healthy operating performance and lower interest expenses

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20	FY21	FY22E			FY23E			Comments
(₹ Crore)			Old	New	% Change	Old	New	% Change	
Revenue	4,877.9	4,925.4	5,915.3	5,915.3	0.0	7,073.3	7,073.3	0.0	
EBITDA	764.3	672.8	813.3	813.3	0.0	972.6	972.6	0.0	
EBITDA Margin (%)	15.7	13.7	13.8	13.8	0 bps	13.8	13.8	0 bps	
PAT	315.2	361.9	477.7	477.7	0.0	544.7	546.6	0.3	
Diluted EPS (₹)	17.9	14.1	18.6	18.6	0.0	21.2	21.3	0.3	

Source: Company, ICICI Direct Research

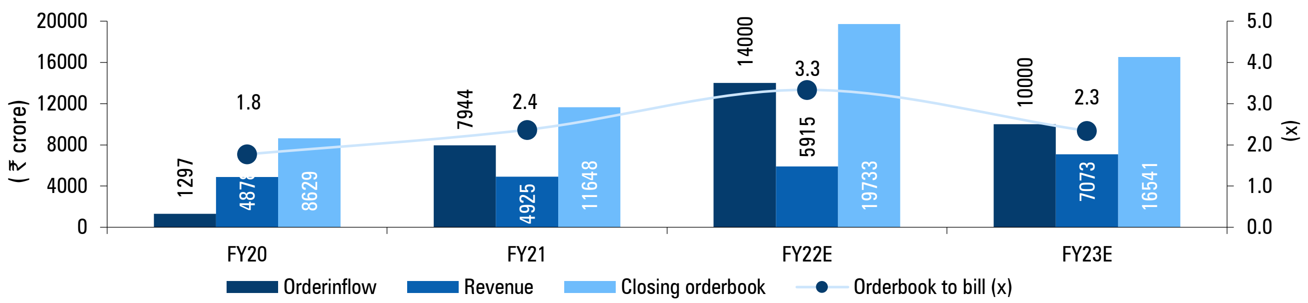
Company Analysis

Exhibit 3: Key EPC projects under construction

Order book	Remaining Value (₹ crore)
Aligarh-Kappur Pkg-V	1578
Unnao-Lalganj	1353
Jagdishpur Faizabad	1197
Meerut Nazibabad	1095
Lucknow Ringroad	868
Challakere to Hariyur	815
Top 6 projects	**6906**
Other Projects	5189
Total	**12095**

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	700.0
Kanpur Kabrai	100	NHAI	UP	NH-86	Toll	123.0	2	67.5	67.5	141.0
Gwalior Bhind	100	MPRDC	MP	NH-92	Toll	107.7	2	78.3	78.3	113.0
Bareilly Almora*	100	UPSHA	UP	SH-37	Toll	54.0	4	74.6	74.6	330.0
Rae Bareli 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	45.0
Kanpur Ayodhya	100	NHAI	UP	NH-28	OMT	217.0	4	0.1	0.1	-
Total						**826.1**		**589.1**	**463.0**	**1822.0**

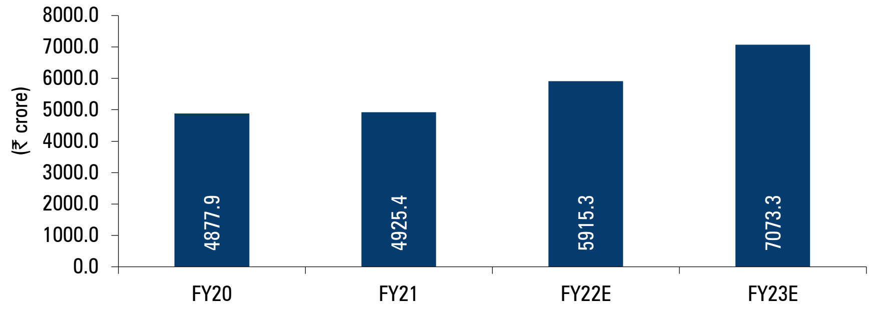
Source: Company, ICICI Direct Research

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	105	400
Jhansi-Khajuraho (Package I)	100	NHAI	UP & MP	NH-75/76	76.3	4	1342	91	516
Jhansi-Khajuraho (Package II)	100	NHAI	UP & MP	NH-75/76	85.4	4	1262	95	538
Chakeri-Allahabad	100	NHAI	UP	NH-2	145.1	6	2018	108	522
Aligarh Kanpur	100	NHAI	UP	NH-91	45.0	4	1104	115	498
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**	**622**	**2812**

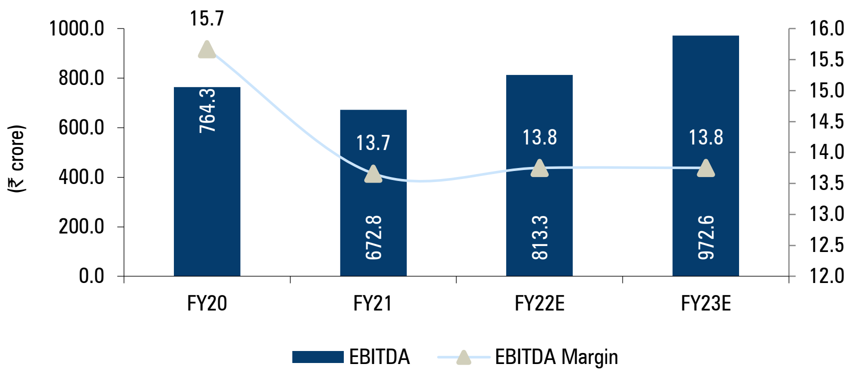
Source: Company, ICICI Direct Research

Exhibit 7: Revenue to witness sharp recovery in FY22E



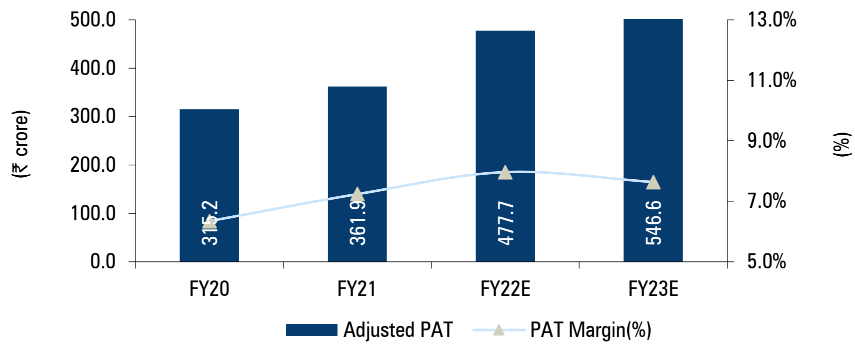
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA & EBITDA margin trend



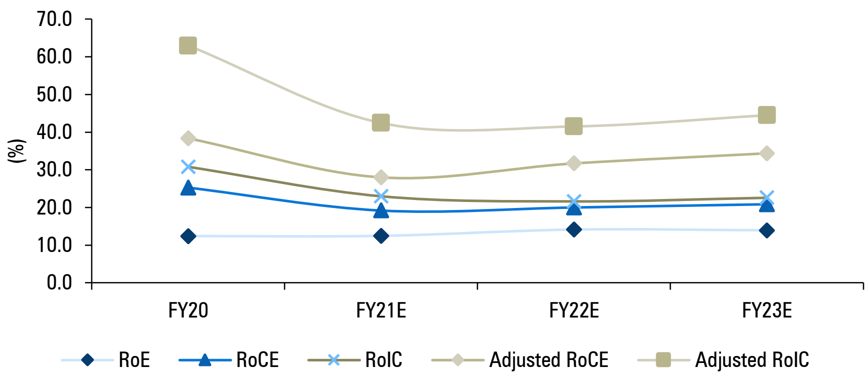
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Valuation & Outlook

PNC remains one of 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. We maintain our BUY rating with a revised SoTP target price of ₹ 360/share. We value its construction business at ₹ 318/share (at 8x FY23E EV/EBITDA implying ~15x FY23 EPS).

Exhibit 11: SoTP valuation

Entity		Per share (₹)	Comment
Construction Business	7,946	310	8x FY23 EV/EBITDA
BOT & HAM Projects	1,085	42	
Ghaziabad Aligarh	68	3	
Bareilly Almora	75	3	
Gwalior Bhind	78	3	
Raibereli Jaunpur	140	5	
Narela Industrial Area	35	1	
Kanpur Kabrai	68	3	
Investment in HAM projects	622	24	1x Equity Invested
Less:Net Debt	(211)	(8)	FY23E net debt
Target Price	9,242	360	
Rounded off target price		360	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: 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	151.6
PBT	**612.0**	**558.5**	**668.1**	**803.8**
Total Tax	151.7	196.6	190.4	257.2
Reported PAT	**460.3**	**361.9**	**477.7**	**546.6**
Adjusted PAT	**315.2**	**361.9**	**477.7**	**546.6**
EPS (Diluted)	**17.9**	**14.1**	**18.6**	**21.3**

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore

₹ crore	FY20	FY21	FY22E	FY23E
Profit after Tax	**460.3**	**361.9**	**477.7**	**546.6**
Depreciation	126.4	112.4	137.8	151.6
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**	**481.5**
(Purchase)/Sale of Fixed Assets	-92.7	-183.5	-125.0	-125.0
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**	**-342.2**
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**	**26.4**
Opening Cash/ Cash Equiv.	309.4	740.1	768.2	583.3
Closing Cash/ Cash Equiv.	**740.1**	**768.2**	**583.3**	**609.6**

Source: Company, ICICI Direct Research

Exhibit 14: 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	3,855.8
Networth	**2,546.6**	**2,908.5**	**3,373.4**	**3,907.1**
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**	**4,306**
Assets				
Gross Block	948.4	1,127.8	1,252.8	1,377.8
Net Block	586.5	653.5	640.7	614.1
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	609.6
Total Current Assets	2,842.5	3,159.0	3,571.8	4,163.5
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	1,997.6
Total Assets	**2,873**	**3,307**	**3,772**	**4,306**

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
EPS (Fully Diluted)	17.9	14.1	18.6	21.3
Cash EPS	22.9	18.5	24.0	27.2
BV	99.3	113.4	131.5	152.3
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	14.0
RoCE	25.3	19.2	20.1	21.0
RoIC	30.8	23.0	21.9	22.9
Valuation Ratios				
EV / EBITDA	9.8	11.1	9.4	7.9
P/E	17.3	22.0	16.6	14.5
EV / Net Sales	1.5	1.5	1.3	1.1
Market Cap / Sales	1.6	1.6	1.3	1.1
Price to Book Value	3.1	2.7	2.4	2.0
Turnover Ratios				
Asset turnover	1.7	1.5	1.6	1.6
Gross Block Turnover	5.1	4.3	4.7	5.1
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

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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