October 12, 2021

Healthy performance expected…

We expect strong revenue growth for construction companies on a YoY basis amid a benign base, driven by improved labour availability and despite a monsoon led seasonally muted quarter. For real estate companies, sales volume is likely to recover sharply driven by favourable macro drivers, demand and new launches (in some cases). Going ahead, festive season led new launches and its demand momentum will be key monitorables for residential real estate.

Sales volumes rebound; festive season to see launches

We anticipate residential sales momentum will recover sharply, driven by triggers such as pent up demand, benign interest rates and launches (for some developers). We bake in ~236%, ~50% YoY growth in sales volumes of Brigade, Oberoi Realty, respectively. On the leasing front, new commercial leasing activity is likely to recover with economic reopening, albeit still slower due to partial work from home. The hospitality and retail segment is likely to show a smart recovery QoQ driven by economic reopening post the second wave in Q2.

For Kajaria, we expect tiles sales volumes to witness strong growth of ~15% YoY. We expect overall revenues to grow ~22% YoY to ₹ 869.7 crore, also aided by 6% realisation growth on account of price hikes taken. We expect EBITDA margins of 18%, down 220 bps YoY due to higher gas prices. Overall, we expect the bottomline at ₹ 98.2 crore, (up ~10% YoY).

Order inflows, execution to improve

Order inflows across the construction universe are likely to improve with a pick-up in the overall ordering trend. NCC received order inflows worth ₹ 3000 crore during the quarter, across water, electrical and building division. Ashoka Buildcon won orders worth ₹ 3067 crore, during the quarter spread across transmission, housing and road EPC. HG Infra, on the other hand, secured one road EPC and one HAM project totalling ₹ 1692 crore. KNR Construction announced orders worth ₹ 313 crore while PNC Infratech did not announce any new orders during the quarter.

On the execution front, we expect construction companies to witness robust growth on a YoY basis on a benign base (our coverage topline was down ~4.5% in Q2FY21) and execution pick-up with labour availability. On an overall basis, we expect our road & construction universe to post revenue growth of 29.7% YoY to ₹ 5890 crore. The reported EBITDA margin of our universe is expected to contract 200 bps YoY to 13.1% as the base quarter had some one-offs. Overall, we expect our universe PAT to grow 26.7% YoY to ₹ 399 crore, driven by robust topline growth and lower interest costs.

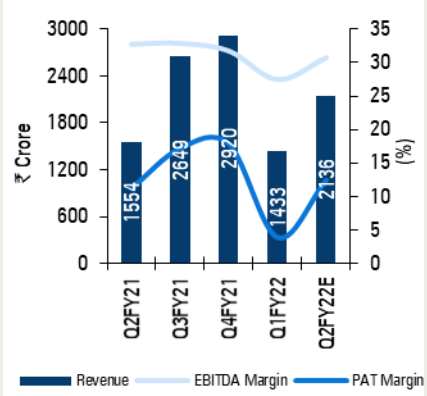
Exhibit 1: Estimates for Q2FY22E: (Real Estate & Building Material) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Oberoi Realty	566.8	79.3	99.4	265.8	42.5	112.8	190.1	37.0	135.7
The Phoenix Mills	260.0	21.0	27.3	111.8	21.9	46.8	3.6	LP	LP
Brigade Enterprises	440.0	41.6	14.9	122.7	40.4	10.2	-25.5	NA	NA
Kajaria Ceramics	869.7	22.1	54.8	156.6	9.0	94.7	98.2	10.2	127.5
Total	**2,136.5**	**37.5**	**49.1**	**656.7**	**29.0**	**67.3**	**266.4**	**52.3**	**369.0**

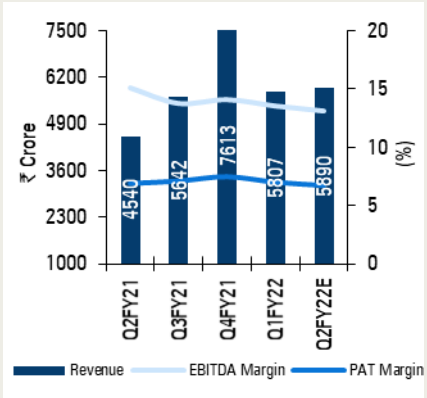
Source: Company, ICICI Direct Research

Result Preview

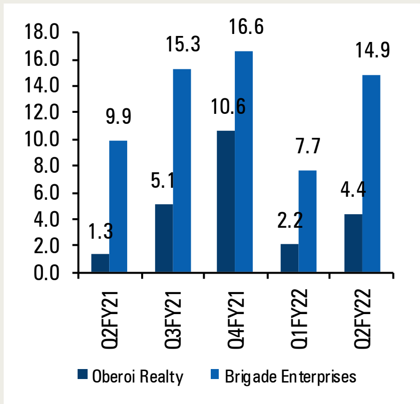
Topline & Profitability (Real Estate Universe)



Topline & Profitability (Infra Universe)



Real estate sales volume trend



ICICI Securities – Retail Equity Research

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Exhibit 2: Company Specific Views (Real Estate)

Company	Remarks
Oberoi Realty	Notwithstanding lack of any new launch, the sales volume momentum has recovered in Q2FY22. Oberoi reported sales volumes at ~4.4 lakh sq feet, growth of ~236% YoY with sales value of ₹ 828.5 crore, up ~1.5x YoY, on a benign base but similar to sustainable volumes (excluding new launches bump) seen in Q3FY21, Q4FY21. On the financial front, we expect topline to grow 79.3% YoY to ₹ 566.8 crore, driven by revenue recognition from near completed projects driven by sales volumes. Overall, we expect ORL's net income to grow 37% YoY to ₹ 190.1 crore. **Key Monitorable**: Commentary on sales volumes, progress on new launches
The Phoenix Mills	We expect Phoenix Mills' (Phoenix) revenues to grow 21% YoY to ₹ 260 crore, largely aided by reopening of malls in Q2, albeit delayed reopening of Maharashtra malls, will keep revenues sub-optimal. At the PAT level, we expect ₹ 3.6 crore vs. loss in Q2FY21. **Key Monitorable**: Commentary on post reopening footfalls and outlook on business ahead
Brigade Enterprises	We expect BEL's sales volumes to grow ~50% YoY to 14.9 lakh sq ft on a benign base, driven by strong residential demand in Bengaluru. On the financial front, we expect the topline to grow 41.6% YoY to ₹ 444 crore, driven by higher revenue recognition in residential, along with recovery in hospitality and mall portfolio performance, which were impacted by the second wave, Overall, at the PAT level, we expect loss of ₹ 25.5 crore. **Key Monitorable**: Sales volume and outlook ahead
Kajaria Ceramics	We expect tiles sales volumes to witness strong growth of ~15% YoY. We expect overall revenues to grow ~22% YoY to ₹ 869.7 crore, also aided by 6% realisations growth on account of price hikes taken. We expect EBITDA margins of 18% down 220 bps YoY owing to higher gas prices. Overall, we expect the bottomline at ₹ 98.2 crore, (up ~10% YoY). **Key Monitorables**: Management commentary on demand outlook and commentary on gas pricing

Source: Company, ICICI Direct Research

Exhibit 3: Real Estate and Building Material Coverage Universe

Sector / Company		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Oberoi Realty (OBEREA)	Buy	35,760	20.3	26.5	30.7	48.4	37.1	32.0	35.2	30.3	25.7	3.8	3.5	3.2	7.9	7.7	8.1
The Phoenix Mills (PHOMIL)	Buy	16,802	3.1	13.7	33.6	319.5	71.5	29.1	40.4	23.6	15.3	3.4	3.3	3.0	1.1	4.6	10.4
Brigade Enterprises (BRIENT)	Buy	10,669	-2.2	2.0	13.4	NM	231.3	34.6	30.4	19.2	11.8	4.2	3.7	3.5	NM	1.6	10.1
Kajaria Ceramics (KAJCER)	Buy	20,292	19.4	24.8	32.8	65.8	51.3	38.8	39.0	31.6	24.1	10.8	9.8	8.7	16.5	19.1	22.4

Source: Company, Bloomberg, ICICI Direct Research

Exhibit 4: Estimates for Q2FY22E: (Roads & Construction) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Ashoka Buildcon	1,009.1	15.0	-0.2	121.1	-7.5	1.0	99.1	-5.4	-2.2
PNC Infratech	1,390.1	32.0	11.1	195.1	37.3	11.2	109.2	57.7	17.1
HG Infra	680.0	45.5	-25.4	109.0	41.7	-26.6	57.7	76.7	-35.0
NCC	2,150.0	39.5	13.6	226.0	7.7	13.2	73.5	25.8	42.2
KNR Construction	661.3	10.0	-10.6	122.3	-1.4	-14.7	59.4	19.2	-18.6
Total	**5,890.5**	**29.7**	**1.4**	**773.5**	**13.1**	**-1.7**	**399.0**	**26.7**	**-2.3**

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 15% YoY at ₹ 1009.1 crore, aided by improved execution. EBITDA margins are expected to decline sharply by 290 bps YoY to 12%, as the base quarter had certain one-off benefits on account of release of contingencies. Consequently, we expect PAT decline of 5% YoY to ₹ 99.1 crore. **Key Monitorable**: Management commentary on execution ahead, and status on monetisation of Ashoka Concessions
HG Infra	Revenue during Q2FY22 is likely to grow ~45.5% YoY to ₹ 680 crore, on a benign base of Q2FY21 (decline of ~1.4% YoY) and also driven by superior executable order book. Operating margin is likely to remain at an elevated level of ~16%. At the net level, we expect robust operating performance to translate into ~76.7% YoY bottomline growth at ₹ 57.7 crore. **Key monitorable**: Management commentary on execution ahead and margins impact owing to commodity price rise
NCC Ltd	We expect topline to grow 39.5% YoY to ₹ 2150 crore, on a depressed base (~11% decline in Q2FY21), with improved execution during the quarter. Margins are expected at 10.5%, down 300 bps YoY as base quarter had lower costs. Reported PAT is expected to grow ~26% YoY to ₹ 73.5 crore, driven by a strong operating performance. **Key Monitorable**: Management commentary on order inflows, execution ahead, status on Andhra Pradesh orders, receivables and net debt
PNC Infratech	We expect reported topline growth of 32% YoY to ₹ 1390.1 crore, driven by superior execution with optimum labour availability. EBITDA margins are expected at 14%, up 50 bps YoY. PAT is expected to grow ~57.7% YoY to ₹ 109.2 crore. **Key Monitorable**: Management commentary on order inflows, execution ahead and progress on HAM projects
KNR Constructions	We expect revenues to grow 10% YoY to ₹ 602.6 crore, as the company had a relatively higher base with ~10% YoY growth in Q2FY21. EBITDA margin is expected to contract 210 bps YoY to 18.5%, given higher base owing to irrigation revenues. Overall, we expect bottomline to grow 19.2% YoY to ₹ 59.4 crore, given lower interest and depreciation. **Key Monitorable**: Management commentary on order inflows, execution ahead and progress on HAM projects

Source: Company, ICICI Direct Research

Exhibit 6: Road Coverage Universe

Sector / Company		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
KNR Constructions (KNRCON)	Buy	8,290	8.7	11.2	15.7	34.0	26.3	18.8	15.2	14.1	11.3	4.4	3.8	3.2	13.1	14.5	17.0
PNC Infratech (PNCINF)	Buy	9,352	14.1	18.6	21.3	25.9	19.6	17.1	13.2	11.2	9.3	3.2	2.8	2.4	12.4	14.2	14.0
Ashoka Buildcon (ASHBUI)	Hold	3,326	9.8	9.7	11.4	12.1	12.3	10.4	5.8	5.7	5.2	5.4	3.8	2.8	44.6	30.5	26.4
NCC (NAGCON)	Buy	5,089	4.3	6.9	9.6	19.5	12.0	8.7	7.5	6.0	5.1	0.9	0.9	0.8	4.9	7.4	9.5
HG Infra (HGINF)	Buy	4,349	32.4	42.4	52.8	20.7	15.8	12.7	10.7	8.6	7.0	4.2	3.3	2.7	20.4	21.2	21.0

Source: Company, ICICI Direct Research, Reuters

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