

Retail Equity Research (South India Focus)

PNC Infratech Ltd

Construction & Engineering

BSE CODE : 539150

NSE CODE: PNCINFRA

BLOOMBERG CODE: PNCL:IN

SENSEX : 58,664

BUY

12Months Investment Period

Rating as per Small Cap

CMP Rs.305

TARGET Rs.370

RETURN 21% ↑

(Closing: 23-06-21)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Healthy performance...

PNC Infratech Ltd (PNC) is an Infrastructure construction, development and management company; expertise in execution of projects including highways, bridges, flyovers, airport runways, industrial areas and transmission lines.

- PNC reported a strong top-line growth of 53% YoY in Q2FY22 led by a ramp-up in execution.
- EBITDA margin improved by 23bps to 13.7% aided favourable project mix and lower employee cost (as a % of revenue).
- PNC has not received any orders in H1FY22 however, the order book remains healthy at Rs13,178cr which is 2.3x TTM revenue and provides revenue visibility for two to three years.
- PAT grew by 95% YoY helped by lower tax rate of ~26% (vs 36% in Q2FY21) and higher other income.
- H1FY22 revenue grew by 46% YoY and the company has guided for revenue growth of 20-25% with EBITDA margin of 13.5% - 13.75% in FY22.
- Strong order book and a comfortable balance sheet we reiterate Buy rating on the stock with a TP of Rs370 based on a P/E of 15x on FY23E EPS and BOT/HAM projects at 0.5xP/B.

Execution improved...

PNC's standalone execution was better than our estimate in Q2FY22. The company reported strong revenue growth of 53.3% YoY to Rs1,615cr led by a ramp-up in execution. In H1FY22, the revenue grew by 46% YoY and has guided for revenue growth of 20-25% in FY22. PNC expects the revenue from Jal Jeevan Mission (JJM) project will start reflecting from Q3FY22 onwards. In the first phase of JJM there were Rs10,000cr of projects and in Phase two, Rs50,000cr projects. In UP alone there is 1 trn project potential. Currently, JJM projects constitute 25% of the order book. The management expects Rs200cr to Rs250cr of revenue from the JJM project in FY22. Given strong execution, we increase FY22/FY23 revenue estimate by 5.4%/5% respectively.

Robust order book...

Despite the company not bagging any order inflows in H1FY22, the order book remains strong at Rs13,178cr (2.3x TTM revenue) which provides strong revenue visibility in the coming years. Based on a strong order pipeline from NHAI the company maintained an order inflow target of Rs8,000cr for FY22. The company has already submitted their bid for Rs9,200cr (EPC 30%, HAM 70%) of projects and expects NHAI bids worth Rs25,000cr in the next three to four months. PNC has a portfolio of 11 HAM projects of which 3 projects received PCOD (Provisional Commercial Operation Date), 1 project received COD (Commercial Operation Date) and 7 are under construction. PNC is in the final stages for divestment of HAM projects and expects to monetise the asset by the end of FY22. In the Ghaziabad project, two NOCs are pending, which is expected to receive in 8 to 10 days.

Margins aided by favourable project mix...

EBITDA margin improved by 23bps YoY at 13.7% aided by favourable project mix and lower employee cost as a % of revenue. PAT grew by 95% YoY to Rs135cr, further helped by lower tax rate of ~26% (vs 36% in Q2FY21) and higher other income (~18% YoY). The company expects margins to be in the range of 13.5% to 13.75% in FY22, aided by strong execution.

Valuations

Strong order book and a lean balance sheet we reiterate our Buy rating on the stock and value EPC business at a P/E of 15x on FY23E EPS & BOT/HAM projects at 0.5x P/B with a TP of Rs 370.

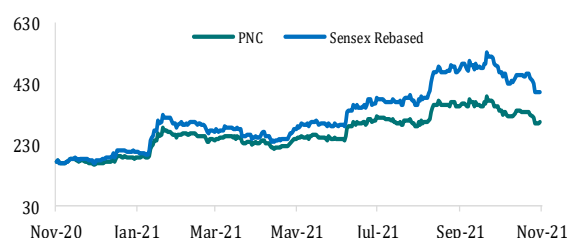
Company Data

Market Cap (cr)	₹ 7,815
Enterprise Value (cr)	₹ 7,381
Outstanding Shares (cr)	25.7
Free Float	43.93%
Dividend Yield	0.2%
52 week high	₹ 396
52 week low	₹ 157
6m average volume (cr)	0.01
Beta	0.67
Face value	₹ 2

Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	56.1	56.1	56.1
FII's	10.8	9.3	11.6
MFs/Insti	27.7	29.1	28.3
Public	5.5	5.5	4.1
Total	100.0	100.0	100.0
Promoter Pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-1%	20%	76%
Absolute Sensex	5%	15%	33%
Relative Return*	-6%	5%	43%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	4,925	6,091	7,410
Growth (%)	1.0	23.7	21.7
EBITDA	673	834	1,000
EBITDA Margin(%)	13.7	13.7	13.5
PAT Adj.	361	499	595
Growth (%)	-21.6	38.3	19.1
Adj.EPS	14.1	19.5	23.2
Growth (%)	-21.6	38.3	19.1
P/E	21.6	15.6	13.1
P/B	2.7	2.3	2.0
EV/EBITDA	11.0	9.1	7.3
ROE (%)	13.2	15.9	16.2
D/E	0.09	0.08	0.08

SOTP Valuation

Particulars	Invested Equity (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC		348	P/E 15x FY23E EPS
BOT Projects	463	9	0.5x P/BV
HAM	664	13	0.5x P/BV
Total Value per share		370	

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q2FY22	Q2FY21	% YoY Growth	Q1FY22	% QoQ Growth	H1FY22	H1FY21	% YoY Growth
Sales	1,615	1,053	53.3	1,251	29.1	2,866	1,959	46.3
EBITDA	222	142	56.0	175	26.3	397	262	51.6
EBITDA margins %	13.7	13.5	23bps	14.0	-30bps	13.9	13.4	48bps
Depreciation	33	27	20.5	31	4.1	64	54	18.5
EBIT	189	115	64.4	144	31.2	333	208	60.3
Interest	24	22	11.5	18	34.7	42	47	-10.1
Other Income	17	15	17.7	18	-1.9	35	34	3.7
Exceptional Items	-	-	0.0	-	0.0	-	-	0.0
PBT	182	108	68.7	144	26.6	326	194	67.4
Tax	47	39	20.7	50	-7.5	97	65	49.0
Reported PAT	135	69	95.4	93	45	229	129	76.7
Adjustments	-	0.0	0.0	-	0.0	-	-	0.0
Adj PAT	135	69	95.4	93	45.1	229	129	76.7
No. of Shares	26	26		26		26	26	
EPS (Rs)	5.3	2.7	95.4	3.6	45.1	8.9	5.0	76.7

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	5,781	7,058	6,091	7,410	5.4	5.0
EBITDA	780	967	834	1,000	6.9	3.5
Margins (%)	13.5	13.7	13.7	13.5	20bps	-20bps
Adj. PAT	459	571	499	595	8.8	4.2
EPS	18	22	19	23	8.8	4.2

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	3,097	4,878	4,925	6,091	7,410
% change	66.8	57.5	1.0	23.7	21.7
EBITDA	457	764	673	834	1,000
% change	43.4	67.1	-12.0	24.0	19.9
Depreciation	92	126	112	133	166
EBIT	365	638	560	702	834
Interest	64	114	77	88	97
Other Income	43	88	75	85	95
PBT	344	612	559	699	832
% change	47.1	77.9	-8.7	25.1	19.1
Tax	19	152	197	199	237
Tax Rate (%)	5.6	24.8	35.2	28.5	28.5
Reported PAT	325	460	362	499	595
Adj*	-66	0	-1	0	0
Adj PAT	259	460	361	499	595
% change	29	78	-22	38	19
No. of shares (cr)	26	26	26	26	26
Adj EPS (Rs.)	10	18	14	19	23
% change	28.8	77.7	-21.6	38.3	19.1
DPS (Rs.)	0.6	0.9	0.9	0.9	0.9

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	436	738	671	831	999
Non-cash adj.	46	-158	-21	-105	-136
Changes in W.C	-340	-235	-297	-556	-242
C.F. Operation	186	433	428	255	716
Capital exp.	-295	-126	-197	-99	-100
Change in inv.	-111	101	-73	-75	-123
Other invest.CF	0	0	0	0	0
C.F - Investment	-449	-114	-345	-259	-318
Issue of equity	0	0	0	0	0
Issue/repay debt	155	-60	29	30	30
Dividends paid	-15	-22	-22	-22	-23
Other finance.CF	352	223	-43	-238	0
C.F - Finance	425	53	-78	-219	-90
Chg. in cash	162	373	5	-223	307
Closing cash	309	682	688	465	772

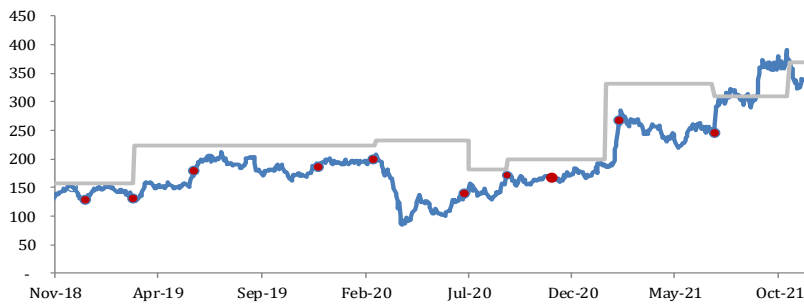
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	309	682	688	465	772
Accounts Receivable	615	804	839	1,068	1,218
Inventories	404	267	354	473	562
Other Cur. Assets	991	1,275	1,548	1,969	2,233
Investments	774	673	747	821	944
Gross Fixed Assets	917	1,037	1,237	1,337	1,437
Net Fixed Assets	614	587	654	520	454
CWIP	6	-	3	4	4
Intangible Assets	2	2	2	2	2
Def. Tax (Net)	1	121	23	17	12
Other Assets	-	-	-	-	-
Total Assets	3,716	4,410	4,857	5,338	6,202
Current Liabilities	647	748	833	1,040	1,297
Provisions	12	11	24	30	35
Debt Funds	284	224	253	283	313
Other Liabilities	658	881	838	600	600
Equity Capital	51	51	51	51	51
Reserves & Surplus	2,064	2,495	2,857	3,335	3,906
Shareholder's Fund	2,115	2,547	2,908	3,386	3,957
Total Liabilities	3,716	4,410	4,857	5,338	6,202
BVPS (Rs.)	82	99	113	132	154

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	14.8	15.7	13.7	13.7	13.5
EBIT margin (%)	11.8	13.1	11.4	11.5	11.3
Net profit mgn.(%)	8.4	9.4	7.3	8.2	8.0
ROE (%)	13.2	19.8	13.2	15.9	16.2
ROCE (%)	11.3	16.4	9.5	12.2	12.4
W.C & Liquidity					
Receivables (days)	76.9	53.1	60.9	57.1	56.3
Inventory (days)	50.0	36.3	32.4	35.0	35.9
Payables (days)	80.9	51.0	61.9	70.0	74.6
Current ratio (x)	3.5	4.0	4.0	3.7	3.6
Quick ratio (x)	1.4	2.0	1.8	1.5	1.5
Turnover & Leverage					
Gross asset T.O (x)	4.0	5.0	4.3	4.7	5.3
Total asset T.O (x)	1.0	1.2	1.1	1.2	1.3
Int. coverage ratio (x)	5.7	5.6	7.3	7.9	8.6
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	2.5	1.5	1.5	1.3	1.0
EV/EBITDA (x)	17.0	9.6	11.0	9.1	7.4
P/E (x)	30.2	17.0	21.6	15.6	13.1
P/BV (x)	3.7	3.1	2.7	2.3	2.0

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
07-June-2018	BUY	197
13-Aug -2018	BUY	190
19-Dec -2018	BUY	157
25-Feb-2019	BUY	158
29-May-2019	BUY	223
25-Nov -2019	BUY	223
17-Feb-2020	Accumulate	233
02-July- 2020	BUY	182
31-Aug-2020	Buy	199
04-Nov- 2020	BUY	199
10-Feb-2021	Buy	331
29-Jun-2021	Buy	310
24-Nov-2021	Buy	370

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

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