



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	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jan 08, 2022

44.62

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

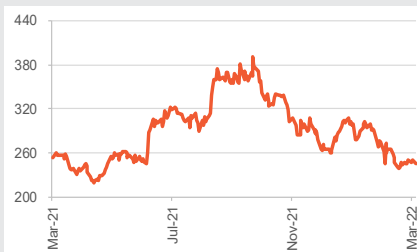
Company details

Market cap:	Rs. 6,315 cr
52-week high/low:	Rs. 396 / 217
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	10.9
DII	28.9
Others	4.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.1	-7.0	-32.1	-3.1
Relative to Sensex	-8.9	-6.7	-27.4	-19.9

Sharekhan Research, Bloomberg

PNC Infratech Ltd

Recent order wins brighten revenue visibility

Infrastructure

Sharekhan code: PNCINFRA

Reco/View: Buy



CMP: Rs. 246

Price Target: Rs. 380



Upgrade



Maintain



Downgrade

Summary

- PNC Infratech's (PNC's) L1 position in six hybrid-annuity model (HAM) projects with an aggregate bid project cost of Rs. 6,871 crore would help company achieve its Rs. 8000 crore order target for FY2022.
- Receipt of early completion bonus for Purvanchal Expressway (package V) highlights its strong execution capabilities.
- We expect tendering activities to pick up post FY2022 with COVID-19, extended monsoons and flood like situation in southern states, affecting business till February 2022.
- Hence, we retain a Buy on the stock with an unchanged PT of Rs. 380, considering its healthy growth outlook led by strong order book and recent order wins.

PNC Infratech Limited (PNC) announced that it is the lowest bidder (L1) for six hybrid-annuity (HAM) projects having a total bid project cost of Rs. 6,871 crore during February and March 2022 till date. All six HAM projects are in Uttar Pradesh with an operational period of 15 years post the construction period (of 24-30 months). Strong order inflows expected from the six HAM projects is in line with the management's guidance of Rs. 4,000-5,000 crore order intake before FY2022-end. Project wins comes at a time where industry order awards have been remained muted till February (project awards fell 10.5% in FY2022 till February 2022 at 7618 km), while the company itself had bagged Rs. 2,700 crore order inflows till mid-February 2022. New HAM projects would provide strong revenue visibility over next 2-3 years as its order book including L1 at the end of Q3FY2022 stood at Rs. 14,390 crore, 2.4x TTM standalone revenues. The company expects FY2022 to see minimum 20% y-o-y revenue growth, while it expects 15% y-o-y revenue growth for FY2023. On the asset monetisation front, the company is evaluating divestment of five HAM and one annuity project which would aid in freeing up equity capital and de-leverage the balance sheet.

- L1 status in Rs. 6,871 crore HAM projects:** The company during Q3FY2022 earnings call had highlighted that it had submitted bids for 12HAM, five EPC and two toll-operate-transfer (ToT) projects aggregating Rs. 17,000 crore. It was expecting three or more bids to open before March 2022. However, opening up of six bids during the latter part of February and March 2022 till date has led to expected order wins of Rs. 6871 crore from six HAM projects. Consequently, the company is well poised to achieve its Rs. 8,000 crore order intake target for FY2022 post weak order intake in FY2022 till first half of February 2022 at Rs. 2,700 crore.
- Tendering activity remained weak during FY2022 till February 2022:** The roads sector witnessed weak construction and awarding activities during FY2022 till February 2022. The project awards (including MoRTH and NHAI) declined by 10.5% y-o-y to 7618 kilometres during FY2022 till February 2022, while construction declined by 27.8% y-o-y to 8,045 kms. The steep decline in construction was on account of COVID-19 third wave in the early part of the fiscal year followed by extended monsoons and flood like situation in Southern states. The NHAI project awards stood at 2992kms during FY2022 till February 2022 as against 4788kms awarded during FY2021.
- Early completion bonus highlights company's execution capabilities:** The company received Rs. 82.68 crore towards bonus for early completion of one of its EPC projects namely "Development of Purvanchal Expressway (Package V) in Uttar Pradesh" from Uttar Pradesh Expressways Industrial Development Authority (UPEIDA), on March 16, 2022. The project has been completed on October 26, 2021, 132 days ahead of the scheduled completion date. Accordingly, a bonus @ 0.04% of the contract price (Rs. 1,566 crore), for each day of early completion, was received by the company in terms of contract agreement.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 380: 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 strong order intake expected from its recent L1 positions in six HAM projects resolves muted order intake concern during FY2022 till mid-February. Further, the company has strong opportunities in bagging Jal Jeevan Mission projects in Uttar Pradesh. Additionally, the fructification of asset divestment would further aid in strengthening its healthy balance sheet. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 380.

Key Risks

Delay in the execution of projects or inability to sustain OPM remain key risk to our call.

Valuation (Standalone)

Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	4,925.4	6,150.0	7,112.5	7,834.4
OPM (%)	13.7	13.2	13.2	13.3
Adjusted PAT	361.9	427.4	515.5	582.8
% YoY growth	3.5	18.1	20.6	13.1
Adjusted EPS (Rs.)	14.1	16.7	20.1	22.7
P/E (x)	17.4	14.8	12.3	10.8
P/B (x)	2.1	1.9	1.6	1.4
EV/EBIDTA (x)	9.3	7.8	6.7	6.0
RoNW (%)	13.3	13.7	14.4	14.2
RoCE (%)	13.9	14.4	15.0	14.7

Source: Company; Sharekhan estimates

Strong HAM order inflows during February-March 2022

PNC announced that it is the lowest bidder (L1) for six hybrid-annuity (HAM) projects having a total bid project cost of Rs. 6,871 crore during February and March 2022 till date. All six HAM projects are in Uttar Pradesh with an operational period of 15 years post the construction period (of 24-30 months). The company during Q3FY2022 earnings call had highlighted that it had submitted bids for 12HAM, five EPC and two toll-operate-transfer (ToT) projects aggregating Rs. 17,000 crore. It was expecting three or more bids to open before March 2022. However, opening up of six bids during the latter part of February and March 2022 till date has led to expected order wins of Rs. 6871 crore from six HAM projects. Consequently, the company is well poised to achieve its Rs. 8,000 crore order intake target for FY2022 post weak order intake in FY2022 till first half of February 2022 at Rs. 2,700 crore.

Project Wins during February-March 2022

Project	State	Project Type	Authority	Bid Open Date	Bid Project cost (Rs cr)	Length (kms)	Construction Period (months)	Operational period post construction (months)
Gaju Village to Devinagar Bypass (Four-laning)	U.P.	HAM	NHAI	14-Mar-22	738	33.0	24	15
Hardoi District NH-731 (Four-laning)	U.P.	HAM	NHAI	09-Mar-22	864	54.4	30	15
Mathur Bypass to Gajju Village (Four-laning)	U.P.	HAM	NHAI	25-Feb-22	885	33.0	24	15
Kanpur-Lucknow expressway package 1 (6-8 laning)	U.P.	HAM	NHAI	23-Feb-22	1413	17.2	30	15
Kanpur Lucknow expressway package 2 (6-8 laning)	U.P.	HAM	NHAI	23-Feb-22	1513	45.2	30	15
Sonauli - Gorakhpur section of NH298 (Four-laning)	U.P.	HAM	NHAI	23-Feb-22	1458	79.5	24	15
Total					6871	262.4		

Source: BSE, Sharekhan Research

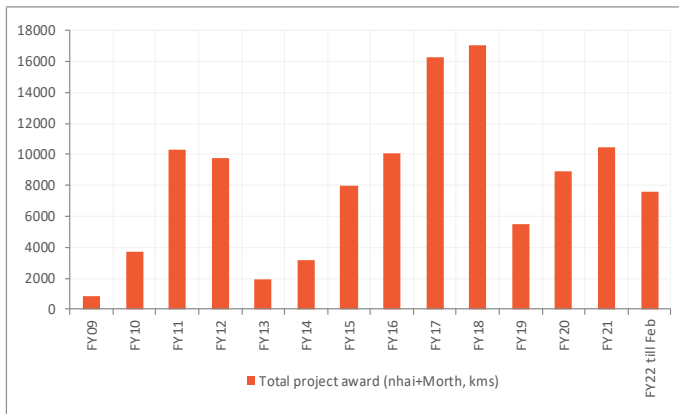
Early completion bonus for Purvanchal Expressway package V

PNC received Rs. 82.68 crore towards bonus for early completion of one of its EPC projects namely "Development of Purvanchal Expressway (Package V) from Sansarpur to Gobindpur, in Uttar Pradesh" from Uttar Pradesh Expressways Industrial Development Authority (UPEIDA), on March 16, 2022. The project has been completed on 26th October 2021, 132 days ahead of the Scheduled Completion Date. Accordingly, the bonus at 0.04% of the contract price (Rs. 1566 crore), for each day of early completion, was received by the company in terms of the contract agreement.

Weak awards/construction led by COVID-19, extended monsoons

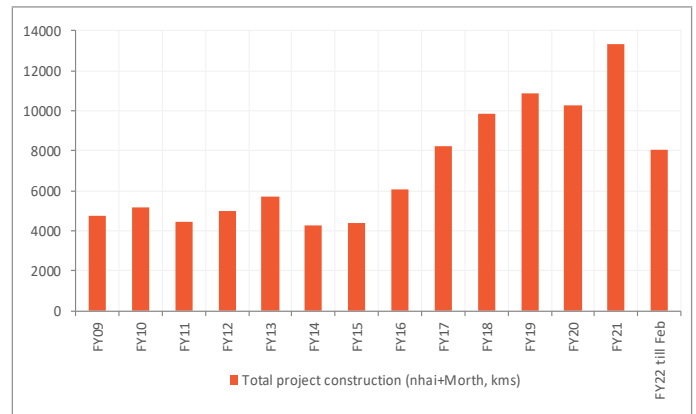
The roads sector witnessed weak construction and awarding activities during FY2022 till February 2022. The project awards (including MORTH and NHAI) declined by 10.5% y-o-y to 7618 km during FY2022 till February 2022, while construction declined by 27.8% y-o-y to 8,045 kms. The steep decline in construction was on account of covid third wave in the early part of the fiscal year followed by extended monsoons and flood like situation in Southern states. NHAI project awards stood at 2992 km during FY2022 till February 2022 as against 4788 km awarded during FY2021. HAM projects comprised 57% of the total projects awarded by NHAI with balance 43% being EPC projects. Project awarding and construction activities are set to pick-up in FY2023 with government's continued focus on road sector.

Project award (MORTH+NHAH) trend



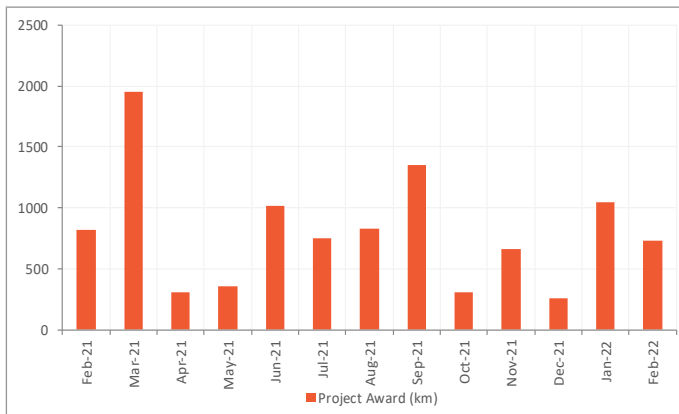
Source: Industry; Sharekhan Research

Project construction (MORTH+NHAH) trend



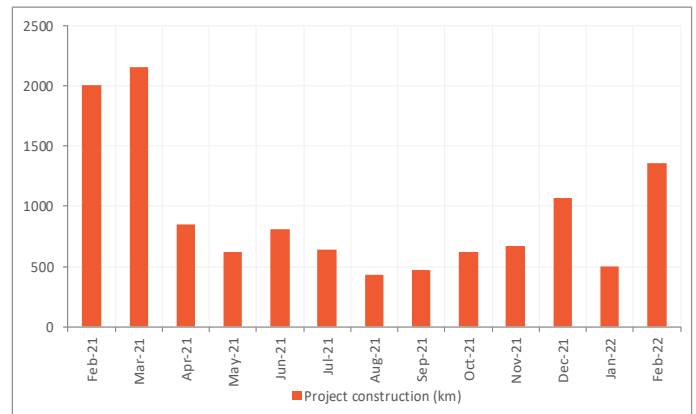
Source: Industry; Sharekhan Research

Project awards (MORTH+NHAH) monthly trend



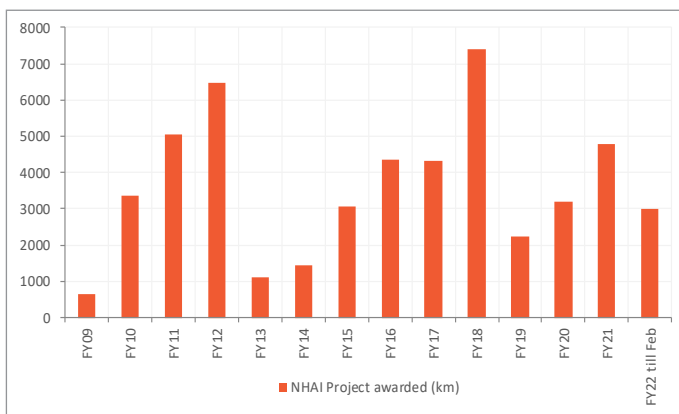
Source: Industry; Sharekhan Research

Project construction (MORTH+NHAH) monthly trend



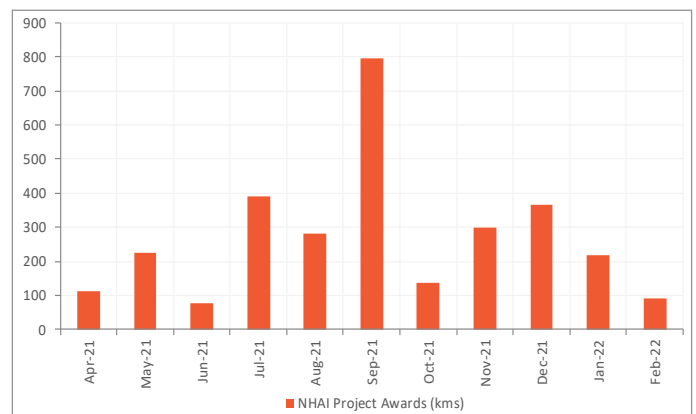
Source: Industry; Sharekhan Research

Project Award NHAH Trend



Source: Industry; Sharekhan Research

NHAH Awards Monthly Trend



Source: Industry; Sharekhan Research

Outlook and Valuation

■ Sector view – Roads to remain one of key focus areas in the 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 are expected to provide strong growth opportunities for industry players. The roads 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. Working capital issues of companies have been handled by proactive payments from NHAI.

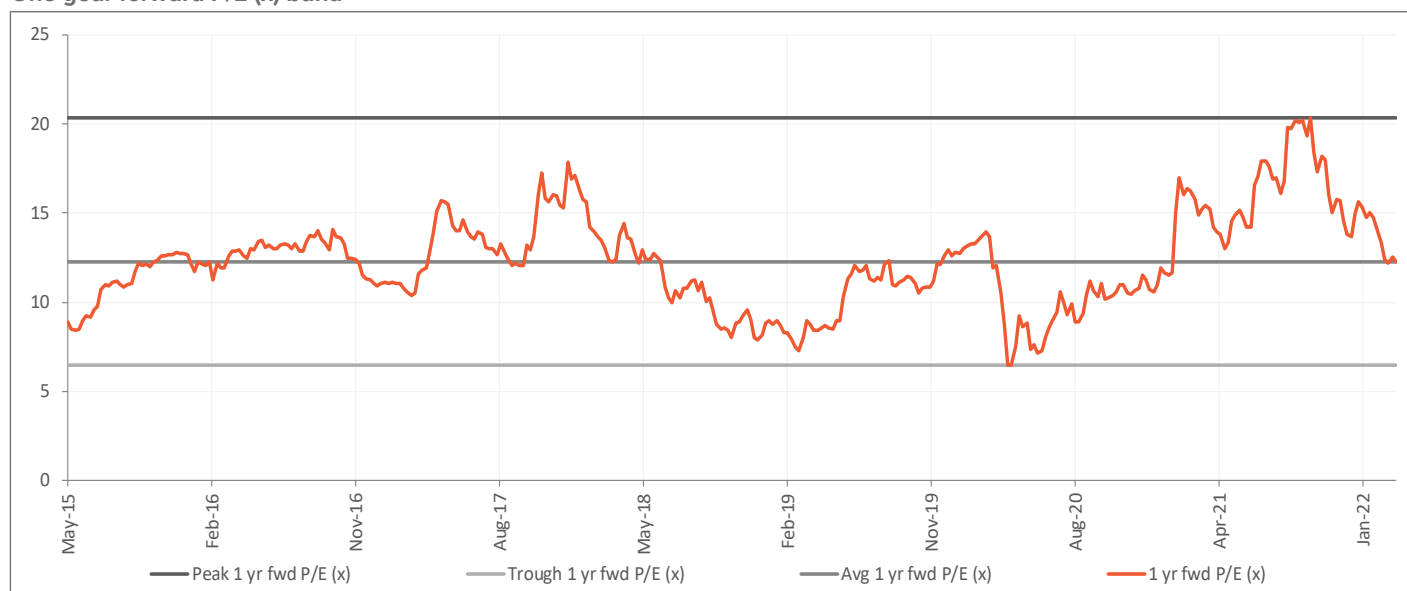
■ Company outlook – Expect strong order intake to maintain healthy revenue growth run-rate

The management expects standalone revenue to grow at minimum 20% y-o-y for FY2022 along with an OPM of 13.5-13.75%. The company expects to grow its revenue at 15% y-o-y for FY2023. Order inflow has remained weak during FY2022 YTD, but it expects tendering to gather pace from as early as March 2022. Hence, PNC has maintained order intake target of Rs. 8,000 crore for FY2022, as it has submitted bids amounting Rs. 17,000 crore. The current order book including L1 projects stands at Rs. 14,390 crore, which provides healthy revenue visibility over the next two years. On the asset monetisation front, the company is in the final stages for divestment of HAM projects and expects to conclude asset monetisation by FY2022-end. Asset portfolio comprises equity investment of Rs. 940 crore and debt of Rs. 4,700 crore.

■ Valuation – Retain Buy with an unchanged PT of Rs. 380

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 strong order intake expected from its recent L1 positions in six HAM projects resolves muted order intake concern during FY2022 till mid-February. Further, the company has strong opportunities in bagging Jal Jeevan Mission projects in Uttar Pradesh. Additionally, the fructification of asset divestment would further aid in strengthening its healthy balance sheet. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 380.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
PNC Infratech	12.3	10.8	6.7	6.0	1.6	1.4	14.4	14.2
KNR Constructions	19.2	15.7	10.7	9.0	3.0	2.5	17.2	17.8

Source: Sharekhan Research, Standalone financials

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, the company 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, all of which are operational. The company has 11 HAM projects, of which five are under construction, one project has received PCOD, one project has achieved financial closure, 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, which provide 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 and MD
Mr. Naveen Kumar Jain	Promoter
Mr. Chakresh Kumar Jain	Managing Director and 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	HDFC Asset Management Co Ltd	8.70
3	Jain Yogesh Kumar	8.53
4	Jain Pradeep Kumar	8.03
5	Jain Naveen Kumar	7.05
6	JAIN MADHAVI	7.02
7	Jain Chakresh Kumar	4.59
8	JAIN VAIBHAV	4.55
9	ICICI Prudential Asset Management	3.35
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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