

April 11, 2022

## Muted quarter for EPC companies...

We expect muted execution for construction companies on a YoY basis amid delay in receiving appointed dates coupled with mixed order inflow trend. For real estate companies, sales volume growth is likely to be a function of new launches (in some cases). Retail (malls) and hospitality are likely to continue to post stronger YoY numbers with limited Omicron impact.

## Sales volumes growth to be function of launches...

We anticipate residential sales momentum will remain healthy amid sustained demand, benign interest rates and new launch offtake. However, residential sales volume growth trend will be mixed, driven by new launches. We bake in ~8% YoY growth in sales volumes of Brigade at ~18 lakh sq ft. However, Oberoi Realty reported sales volume of ~5.24 lakh sq ft area during Q4FY22, down ~51% YoY owing to no major launch during the quarter and high base due to Elysian Tower launch in base quarter. On the leasing front, new commercial leasing activity is likely to continue its recovery with reopening of economy. The hospitality and retail segment are likely to show smart recovery with relatively limited impact of Omicron.

For Kajaria, we expect tiles sales volumes to witness decent growth of ~9.3% YoY. We expect overall revenues to grow 20.8% YoY to ₹ 1150.4 crore, also aided by ~11% realisations growth on account of price hikes taken. We expect EBITDA margins of 17%, down 300 bps YoY, owing to higher gas prices. Overall, we expect the bottomline at ₹ 125.9 crore, (down ~1% YoY).

## Muted execution; order inflows trend mixed...

Order inflows across the construction universe were mixed during Q4FY22. Inflows for companies such as a) PNC Infratech (secured orders worth ~₹ 10,780 crore spread across road-HAM and water supply division), b) GR Infraprojects (declared jobs amounting to ~₹ 7,180 crore mainly road-HAM segment) and c) Ashoka Buildcon (won orders totalling ₹ 3,370 crore) were strong. However, companies like a) KNR Constructions (did not announce any order intake), b) NCC (orders worth ₹ 324 crore) and c) HG Infra (announced inflow of ₹ 844 crore) struggled to secure major orders amid heightened competitive intensity.

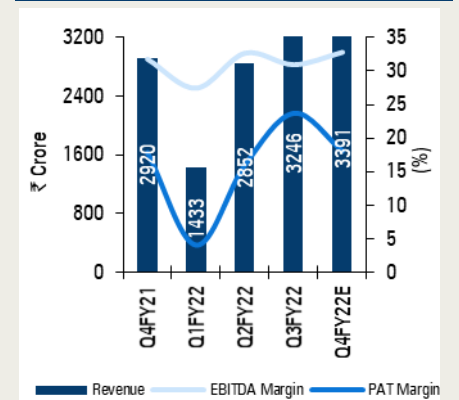
On the execution front, we expect our road & construction universe to witness 1.5% decline (to ₹ 10,089.6 crore) in topline YoY, albeit on higher base, to be largely impacted by delays in receiving appointed dates for new projects. Additionally, EBITDA margin of our universe is expected to hover at ~13.9% (down 50 bps YoY) with volatility in raw material prices. Hence, we expect our universe PAT to decline 3.8% YoY to ₹ 784.8 crore.

**Exhibit 1: Estimates for Q4FY22E: (Real Estate & Building Material) (₹ crore)**

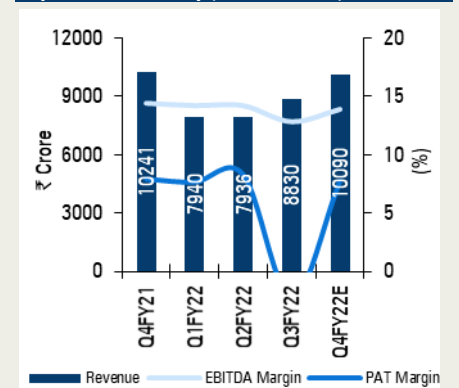
| Company             | Revenue        |             |            | EBITDA         |             |             | PAT          |             |              |
|---------------------|----------------|-------------|------------|----------------|-------------|-------------|--------------|-------------|--------------|
|                     | Q4FY22E        | YoY         | QoQ        | Q4FY22E        | YoY         | QoQ         | Q4FY22E      | YoY         | QoQ          |
| Oberoi Realty       | 814.8          | 3.1         | -2.1       | 390.8          | 4.6         | 17.9        | 286.1        | -0.3        | -38.8        |
| The Phoenix Mills   | 455.9          | 18.2        | 7.3        | 245.0          | 41.3        | 6.3         | 113.4        | 73.1        | 14.7         |
| Brigade Enterprises | 970.0          | 22.6        | 5.3        | 280.0          | 48.4        | 8.7         | 85.2         | 115.2       | 8.7          |
| Kajaria Ceramics    | 1,150.4        | 20.8        | 7.7        | 195.4          | 2.3         | 6.3         | 125.9        | 3.2         | -0.9         |
| <b>Total</b>        | <b>3,391.1</b> | <b>16.1</b> | <b>4.5</b> | <b>1,111.2</b> | <b>19.9</b> | <b>10.7</b> | <b>610.5</b> | <b>18.8</b> | <b>-20.9</b> |

Source: Company, ICICI Direct Research

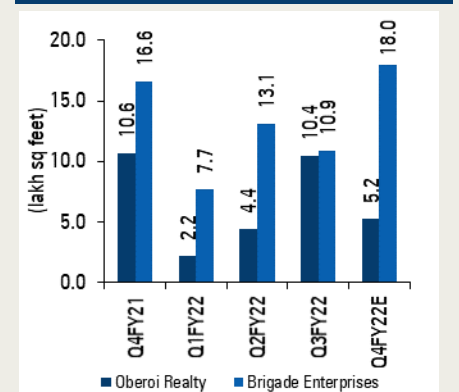
**Topline & Profitability (Real Estate Universe)**



**Topline & Profitability (Infra Universe)**



**Real estate sales volume trend**



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**Exhibit 2: Company Specific Views (Real Estate & Building Materials)**

| Company             | Remarks   |
|---------------------|---|
| Oberoi Realty       | Oberoi Realty clocked sales bookings of 5.24 lakh sq ft area during Q4FY22, down ~51% YoY with total booking value of ₹ 922 crore. We note that while volumes, prima facie, are lower than 1.06 mn sq feet in Q4FY21, it is mainly due to launch of Elysian Tower in base quarter (Q4FY21), which had strong uptake and drove 50% of the sales volumes. Ex-new launches, sales volumes are similar to sustenance sales achieved. On the financial front, we expect topline to grow 3.1% YoY to ₹ 814.8 crore. Overall, we expect ORL's net income to be flattish YoY at ₹ 286.1 crore. <b>Key Monitorable:</b> Commentary on sales volumes, progress on new launches                          |
| The Phoenix Mills   | Phoenix Mills in its Q4FY22 quarterly operational update shared that retail consumption during Q4FY22 was at ₹ 1,656.7 crore (102% of Q4 FY19), with like to like consumption at 91%. Similarly, retail collections were at ₹ 480 crore in Q4FY22, surpassing previous peak of ₹ 440 crore in Q3FY22. Thus, we expect Phoenix' revenues to grow 18.2% YoY to ₹ 455.9 crore, largely aided by improved consumption across malls and superior hospitality revenues. At the PAT level, we expect ₹ 113.4 crore, up ~73% YoY with superior margins and lower interest costs aiding growth. <b>Key Monitorable:</b> Commentary on impact of Omicron led restrictions and outlook on business ahead |
| Brigade Enterprises | We expect BEL's sales volumes to grow ~8% YoY to 18 lakh sq ft, driven by strong offtake from launches during the quarter and healthy residential demand in Bengaluru. On the financial front, we expect the topline to grow 22.6% YoY to ₹ 970 crore, driven by higher revenue recognition in residential, along with recovery in hospitality and mall portfolio performance. Overall, at the PAT level, we expect ₹ 85.2 crore, up ~115% YoY. <b>Key Monitorable:</b> Sales volume and outlook ahead  |
| Kajaria Ceramics    | We expect tiles sales volumes to witness decent growth of ~9% YoY. We expect overall revenues to grow ~20.8% YoY to ₹ 1150.4 crore, also aided by 11% YoY realisations growth on account of price hikes taken. We expect EBITDA margins of 17%, down 300 bps YoY owing to higher gas prices. Overall, we expect the bottomline at ₹ 125.9 crore, (down ~1% YoY). <b>Key Monitorables:</b> 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             | CMP   |       | Rating | M Cap  |       | EPS (₹) |       |       |       | P/E (x) |       | EV/EBITDA (x) |       |       |       | P/B (x) |       |       | RoE (%) |  |
|------------------------------|-------|-------|--------|--------|-------|---------|-------|-------|-------|---------|-------|---------------|-------|-------|-------|---------|-------|-------|---------|--|
|                              | ₹     | TP(₹) |        | ₹ Cr   | FY22E | FY23E   | FY24E | FY22E | FY23E | FY24E   | FY22E | FY23E         | FY24E | FY22E | FY23E | FY24E   | FY23E | FY24E |         |  |
|                              |       |       |        |        |       |         |       |       |       |         |       |               |       |       |       |         |       |       |         |  |
| Oberoi Realty (OBERA)        | 1,010 | 1,000 | Hold   | 36,724 | 28.1  | 29.3    | 41.6  | 35.9  | 34.5  | 24.3    | 30.1  | 30.6          | 16.5  | 3.6   | 3.4   | 3.0     | 8.0   | 6.8   | 11.6    |  |
| The Phoenix Mills (PHOMIL)   | 1,094 | 1,230 | Buy    | 18,820 | 12.7  | 28.1    | 36.4  | 86.2  | 38.9  | 30.1    | 35.0  | 21.0          | 16.2  | 3.8   | 3.5   | 3.2     | 4.4   | 9.1   | 10.7    |  |
| Brigade Enterprises (BRIENT) | 511   | 600   | Buy    | 11,747 | 5.5   | 14.1    | 16.6  | 92.8  | 36.2  | 30.8    | 19.4  | 12.6          | 10.4  | 4.0   | 3.7   | 3.5     | 4.3   | 10.2  | 11.4    |  |
| Kajaria Ceramics (KAJCER)    | 1,028 | 1,370 | Hold   | 16,354 | 25.4  | 31.7    | 36.1  | 40.5  | 32.4  | 28.5    | 25.0  | 20.0          | 18.2  | 7.9   | 7.0   | 6.2     | 19.5  | 21.6  | 21.9    |  |

Source: Company, Bloomberg, ICICI Direct Research

**Exhibit 4: Estimates for Q4FY22E: (Roads & Construction)**

| Company          | Revenue         |             |             | EBITDA         |             |             | PAT          |             |           |
|------------------|-----------------|-------------|-------------|----------------|-------------|-------------|--------------|-------------|-----------|
|                  | Q4FY22E         | YoY         | QoQ         | Q4FY22E        | YoY         | QoQ         | Q4FY22E      | YoY         | QoQ       |
| Ashoka Buildcon  | 1,464.0         | 5.6         | 32.6        | 161.4          | -19.8       | 33.7        | 128.6        | -13.8       | LP        |
| PNC Infratech    | 1,780.6         | 8.3         | 17.0        | 314.2          | 35.2        | 89.8        | 203.0        | 56.9        | 150.8     |
| HG Infra         | 950.0           | -7.6        | 3.8         | 146.3          | -12.1       | 0.7         | 85.9         | -12.0       | -3.3      |
| NCC              | 2,984.0         | 14.0        | 10.4        | 313.3          | 8.1         | 7.0         | 127.5        | 10.4        | 40.2      |
| KNR Construction | 965.0           | 3.1         | 25.9        | 183.3          | 0.6         | 15.4        | 95.3         | 23.8        | -5.5      |
| GR Infra         | 1,946.0         | -26.0       | 7.0         | 288.0          | -29.6       | 13.0        | 144.5        | -41.6       | 12.0      |
| <b>Total</b>     | <b>10,089.6</b> | <b>-1.5</b> | <b>14.3</b> | <b>1,406.5</b> | <b>-5.0</b> | <b>23.6</b> | <b>784.8</b> | <b>-3.8</b> | <b>LP</b> |

Source: Company, ICICI Direct Research

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

| Company           | Remarks  |
|-------------------|--|
| Ashoka Buildcon   | We expect Ashoka Buildcon to report topline growth of 5.6% YoY (to ₹ 1,464 crore; on higher base) to be driven by a pick-up in execution and comfortable order book position. However, its EBITDA margin is likely to hover at ~11% (down 350 bps YoY as base quarter had year-end reversal of provision). Consequently, we expect PAT to decline 13.8% YoY to ₹ 128.6 crore. <b>Key Monitorable:</b> Management commentary on execution ahead and progress on asset monetisation and net debt   |
| HG Infra          | Revenue during Q4FY22 is likely to decline 7.6% YoY (to ₹ 950 crore) as the company had relatively higher base with ~65% YoY growth in Q4FY21. Operating margin is likely to be at ~15.4%, down 80 bps YoY. Consequently, we expect bottomline to decline 12% YoY to ₹ 85.9 crore. <b>Key monitorable:</b> Management commentary on order inflows, competitive intensity, execution ahead, and monetisation  |
| NCC Ltd           | We expect topline to grow 14% YoY to ₹ 2984 crore (despite higher base; ~20% growth in Q4FY21) with a pick-up in execution pace and elevated order book position. However, its operating margin is likely to moderate to 10.5% (down 60 bps YoY) due to increased volatility in raw material prices. With a muted operational performance, PAT at ₹ 127.5 crore is expected to be up 10% YoY. <b>Key monitorable:</b> Management commentary on order inflows, competitive intensity, status on Andhra Pradesh orders, receivables and net debt   |
| PNC Infratech     | We expect reported topline growth of 8.3% YoY at ₹ 1,780.6 crore, with core revenue growth of ~3.3% YoY on higher base as reported topline will include early completion bonus on Purvanchal Expressway project totalling ₹ 82.7 crore. Additionally, its EBITDA margins are likely to remain at an elevated level of ~17.6% to be driven by receipt of early completion bonus. Consequently, we expect PAT to grow 56.9% YoY to ₹ 206 crore. <b>Key Monitorable:</b> Management commentary on execution of HAM and water supply projects, and update on asset monetisation plans  |
| KNR Constructions | We expect muted revenue growth of ~3% YoY at ₹ 965 crore, as the company had relatively higher base with ~39% YoY growth in Q4FY21. EBITDA margin is expected to remain at an elevated level of ~19.5% to be driven by higher contribution from HAM and irrigation projects. At the net level, we expect bottomline to improve 23.8% YoY to ₹ 95.3 crore, to be aided by a better operational performance and higher tax outgo in the base quarter. <b>Key Monitorable:</b> Management commentary on order inflows, competitive intensity, execution ahead and progress on HAM projects  |
| GR Infraprojects  | Revenue during Q4FY22 is expected to decline 26% YoY (to ₹ 1,946 crore) to be impacted by delays in receipts of appointed date of HAM projects. EBITDA margin is also expected to moderate to 14.8% (down 76 bps YoY) with change in project mix with higher contribution from EPC projects. Consequently, muted operating performance and moderation in margin is likely to reduce PAT by 41.6% YoY (to ₹ 144.5 crore). However, the company is likely to receive arbitration amount totalling to ₹ 143.5 crore during the quarter, which we have not considered in our estimates. <b>Key Monitorable:</b> Management commentary on order inflows, expected receipts of appointed date, execution ahead, and progress on HAM projects |

Source: Company, ICICI Direct Research

**Exhibit 6: Road Coverage Universe**

| Sector / Company           | CMP   |       | Rating | M Cap  |       | EPS (₹) |       |       | P/E (x) |       | EV/EBITDA (x) |       |       | P/B (x) |       | RoE (%) |       |       |       |
|----------------------------|-------|-------|--------|--------|-------|---------|-------|-------|---------|-------|---------------|-------|-------|---------|-------|---------|-------|-------|-------|
|                            | (₹)   | TP(₹) |        | (₹ Cr) | FY22E | FY23E   | FY24E | FY22E | FY23E   | FY24E | FY22E         | FY23E | FY24E | FY22E   | FY23E | FY22E   | FY23E | FY24E | FY24E |
| KNR Constructions (KNRCON) | 290   | 360   | Buy    | 8,151  | 12.8  | 14.5    | 18.7  | 22.6  | 20.0    | 15.5  | 12.7          | 11.5  | 9.4   | 3.7     | 3.1   | 2.6     | 16.3  | 15.6  | 16.8  |
| PNC Infratech (PNCINF)     | 260   | 390   | Buy    | 6,663  | 17.0  | 20.4    | 22.9  | 15.3  | 12.7    | 11.4  | 8.3           | 6.8   | 6.0   | 2.0     | 1.7   | 1.5     | 13.1  | 13.6  | 13.3  |
| Ashoka Buildcon (ASHBUI)   | 94    | 100   | Hold   | 2,639  | -13.1 | 13.9    | 16.2  | NM    | 6.8     | 5.8   | 6.1           | 5.4   | 4.7   | 1.0     | 0.9   | 0.8     | NM    | 12.9  | 13.0  |
| NCC (NAGCON)               | 71    | 90    | Buy    | 4,299  | 6.3   | 7.9     | 9.3   | 11.2  | 8.9     | 7.6   | 5.7           | 5.0   | 4.5   | 0.8     | 0.7   | 0.7     | 6.8   | 7.9   | 8.7   |
| HG Infra (HGINF)           | 629   | 885   | Buy    | 4,098  | 49.4  | 56.3    | 60.6  | 12.7  | 11.2    | 10.4  | 7.5           | 6.7   | 5.9   | 3.0     | 2.4   | 2.0     | 23.9  | 21.5  | 18.8  |
| GR Infra (GRINFR)          | 1,566 | 1,780 | Buy    | 15,144 | 66.5  | 75.1    | 95.2  | 23.6  | 20.9    | 16.5  | 13.8          | 12.2  | 10.2  | 3.6     | 3.1   | 2.7     | 15.4  | 15.0  | 16.2  |

Source: Company, ICICI Direct Research, Reuters

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