

In sweet spot for growth ahead!

PNC Infratech's (PNC) execution was robust for the quarter, with revenue growth back, as expected and stable margins. Topline came in at ₹ 1322 crore, up ~9% YoY, driven by strong execution and improved labour availability. EBITDA came in at ₹ 179 crore, up 4.3% YoY, with margin at 13.5%, down 56 bps YoY. The company reported PAT of ₹ 103.2 crore, up 33.7% YoY, led by a robust operating performance and partially aided by higher other income and lower interest costs.

Order book gives robust revenue visibility in medium term

As on Q3 end, PNC's order book (OB) was at ₹ 9,852 crore. However, this OB excludes: a) Challakere-Hariyur HAM project (EPC value: ₹ 935 crore), b) Meerut Nazibabad HAM project (BPC: ₹ 1412 crore), c) two EPC projects of Delhi Vadodara alignment worth ₹ 1,548 crore, and d) irrigation and water projects worth ₹ 3766 crore. Including these projects, the OB is robust at ~₹ 1,8000 crore (OB/TTM revenues: 4.1x) and provides revenue visibility over the next three years. The company has received orders worth ₹ 7700 crore in 9MFY21 and has bid for projects worth ₹ 15,000 crore road projects (EPC, HAM in ratio of 40%, 60%, respectively). It expects additional orders worth ~₹ 2,000 in Q4, ₹ 10,000 crore in FY22E, which is likely to strengthen its elevated OB position even further. Key focus, going ahead, would be on road (EPC, HAM, both) with order inflows from water, irrigation largely done.

Well-placed to fund HAM projects; execution to accelerate

We expect execution to pick up pace with full labour availability, financial closure (FC) of three HAM projects in Q4 and two more HAM project FC likely by March April coupled with execution in water, irrigation projects. Post a likely flattish FY21, we expect revenues to grow ~23%, ~15% in FY22E, FY23E, respectively, with new orders contributing to growth. We expect operating margin to remain elevated at ~14% in FY22E, FY23E. Additionally, the company is well-placed to fund its remaining equity requirement of ₹ 926 crore (including new HAM projects) over the next three years to be aided by its healthy internal cash accruals and current net cash of ₹ 468 crore.

Valuation & Outlook

PNC remains 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, sufficient internal accruals from current order book and current cash is enough for equity infusion. Government focus on roads and higher allocation in Union Budget also bodes well for the company. We maintain our **BUY** rating with a revised SoTP target price of ₹ 300/share (earlier ₹ 220). We value its construction business at ₹ 258/share (at 6.5x FY23E EV/EBITDA implying ~15x FY22 EPS).



Particulars

Particular	Amount (₹ crore)
Market Cap	6,285.2
Total Debt	365.0
Cash	833.0
EV	5,817.2
52 week H/L (₹)	268/ 80
Equity capital	51.3
Face value	₹ 2

Key Highlights

- Including new projects, OB is robust at ~ ₹ 1,8000 crore (OB/TTM revenues: 4.1x), provides revenue visibility over next three years
- Maintain BUY with revised target price of ₹ 300/share (vs. ₹ 220/share earlier)

Key risks to our call

- Any delay in execution in key HAM projects
- Any stress on working capital in water/irrigation projects

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	3,096.9	4,877.9	4,961.1	6,092.5	6,988.3	12.7%
EBITDA	457.3	764.3	669.7	852.9	978.4	8.6%
EBITDA Margin (%)	14.8	15.7	13.5	14.0	14.0	
Adjusted PAT	324.9	315.2	364.8	457.2	516.8	17.9%
EPS (₹)	12.7	17.9	14.2	17.8	20.1	
P/E (x)	19.3	13.7	17.2	13.7	12.2	
EV/EBITDA (x)	13.9	7.6	9.3	7.2	6.1	
RoNW (%)	15.4	12.4	12.6	13.7	13.4	
RoCE (%)	16.4	25.3	19.0	21.1	20.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance analysis

Particulars	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	1322.4	1339.9	1218.0	8.6	1053.5	25.5	Topline growth recovery as labour availability improved
Other Income	24.3	15.0	14.4	68.9	14.8	63.9	
Net Raw material consumed	923.1	917.8	846.0	9.1	749.8	23.1	
Employee benefit expenses	92.4	80.4	85.3	8.2	65.5	41.1	
Other Expenses	128.5	160.8	115.4	11.3	96.2	33.6	
EBITDA	178.5	180.9	171.2	4.3	142.1	25.6	
EBITDA Margin(%)	13.5	13.5	14.1	-56 bps	13.5	1 bps	PAT beat on account of healthy operating performance and lower interest expenses
Depreciation	28.2	30.0	32.6	-13.7	27.2	3.5	
Interest	15.3	25.0	40.1	-62.0	21.8	-30.0	
PBT	159.4	140.9	112.8	41.3	107.9	47.7	
Taxes	56.2	45.1	35.7	57.6	38.6	NM	
PAT	103.2	95.8	77.2	33.7	69.3	48.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21E	FY22E			FY23E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	4,877.9	4,961.1	6,060.5	6,092.5	0.5	6,802.5	6,988.3	2.7	Tweak estimates post Q3 performance
EBITDA	764.3	669.7	848.5	852.9	0.5	952.4	978.4	2.7	
EBITDA Margin (%)	15.7	13.5	14.0	14.0	0 bps	14.0	14.0	0 bps	
PAT	315.2	364.8	448.5	457.2	1.9	493.7	516.8	4.7	
Diluted EPS (₹)	17.9	14.2	17.5	17.8	1.9	19.2	20.1	4.7	

Source: Company, ICICI Direct Research

Conference call highlights

- Robust order book position:** As on Q3 end, PNC's order book (OB) was at ₹ 9,852 crore. However, this OB excludes: a) Challakere-Hariyur HAM project (EPC value: ₹ 935 crore), b) Meerut Nazibabad HAM project (BPC: ₹ 1412 crore), c) two EPC projects of Delhi Vadodara alignment worth ₹ 1,548 crore, and d) irrigation and water projects worth ₹ 3766 crore. Including these projects, the OB is robust at ~ ₹ 1,8000 crore (OB/TTM revenues: 4.1x) and provides revenue visibility over the next three years
- NHAI ordering and company's order inflow expectations:** As per the management, NHAI has already awarded 2424 km in 9MFY21 and is expected to award ~4800-5200 km worth projects. Thus, it is likely to surpass its target of 4,500 km awarding in FY21. Furthermore, for FY22, awarding of 8500 km is likely by NHAI, which provides huge incremental opportunity for the company to bag road projects. In addition, the company has submitted bid for projects worth ₹ 15,000 crore road projects (EPC, HAM in ratio of 40%, 60%, respectively). It expects orders worth ~₹ 2000 in Q4 and ₹ 10000 crore in FY22E, which is likely to strengthen its elevated OB position even further. The key focus, going ahead, would be on road (EPC, HAM, both) with order inflows from water/irrigation largely done
- Receipt of appointed dates in HAM:** The management received the appointed date (AD) of Challakere to Hariyur HAM project in January and expects the AD for recently won four HAM projects and two EPC projects by March/April, 2021. Among water/irrigation segment projects, execution is likely to commence in March, 2021. Thus, with expected surge in executable order book, the management expects a significant pick-up in execution. Operating margin is likely to remain stable of 13-13.5%
- Equity requirement:** PNC has infused ₹ 543 crore equity in its HAM projects by Q3FY21 and has a balance equity requirement of ₹ 926 crore (including new HAM projects). It expects overall equity infusion schedule as: ₹ 350 crore in FY22E, ₹ 168 crore in FY23 and ₹ 120 crore in FY24E. Overall, with healthy internal cash accruals and current net cash of ₹ 468 crore, the company can easily fund its remaining equity requirement
- Debt, capex, working capital:** PNC's standalone debt was at ₹ 365 crore as of Q3FY21, largely for equipment financing with no working capital debt. Cash on PNC's books was at ₹ 833 crore, making the company net cash positive. The working capital days at the end Q3 was at 67 days (vs. ~85 days as on Q2 end). On the capex front, the management has guided for ₹ 150 crore in FY21E (spent ₹ 94 crore in 9MFY21) and ₹ 75-100 crore in FY22E
- Asset monetisation:** The company indicated that discussions for stake sale in Ghaziabad-Aligarh BOT project with prospective investors are at an advanced stage. The preferred investor has completed due diligence and it could be announced shortly.
- Toll revenue** – MP highways ₹ 14.3 crore, Kanpur Ayodhya ₹ 124.1 crore, Kanpur highway ₹ 25 crore, Narela ₹ 9.9 crore, Bareilly Almora ₹ 13.9 crore, Ghaziabad Aligarh - ₹ 62.9 crore, Rae Bareilly Jaunpur - ₹ 32.2 crore

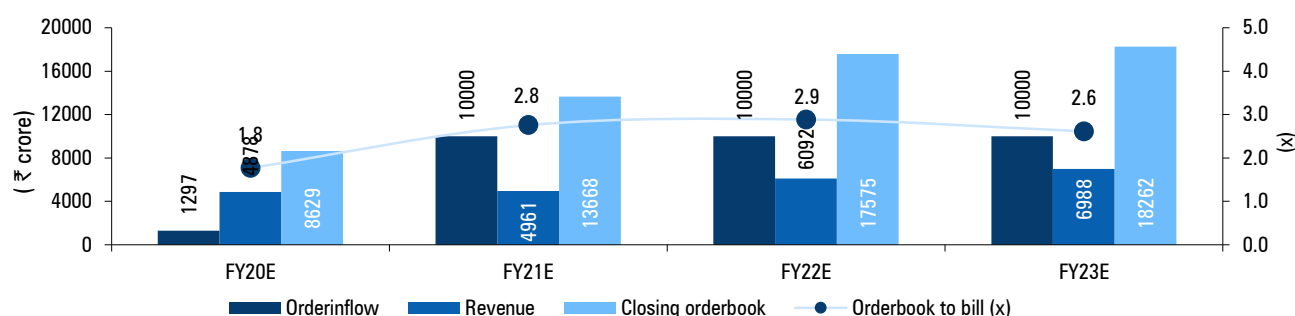
Company Analysis

Exhibit 3: Key EPC projects under construction

Order book	Remaining Value (₹ crore)
Aligarh-Kappur Pkg-V	1651
Unnao-Lalganj	1371
Jagdishpur Faizabad	1219
Lucknow Ringroad	1000
Chakeri-Allahabad	886
Nagpur-Mumbai Expressway	769
Top 6 projects	6896
Other Projects	2956
Total	9852

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	759.0
Kanpur Kabrai	100	NHAI	UP	NH-86	Toll	123.0	2	67.5	67.5	151.0
Gwalior Bhind	100	MPRDC	MP	NH-92	Toll	107.7	2	78.3	78.3	159.0
Bareilly Almora*	100	UPSHA	UP	SH-37	Toll	54.0	4	74.6	74.6	330.0
Rae Bareilly Jaunpur*	100	NHAI	UP	NH-23	Annuity	166.4	2	139.6	139.6	521.0
Narela Industrial Estate	100	DSIIDC	Delhi	NA	Annuity	33.0	NA	35.0	35.0	54.0
Kanpur Ayodhya	100	NHAI	UP	NH-28	OMT	217.0	4	0.1	0.1	-
Total						826.1		589.1	463.0	1974.0

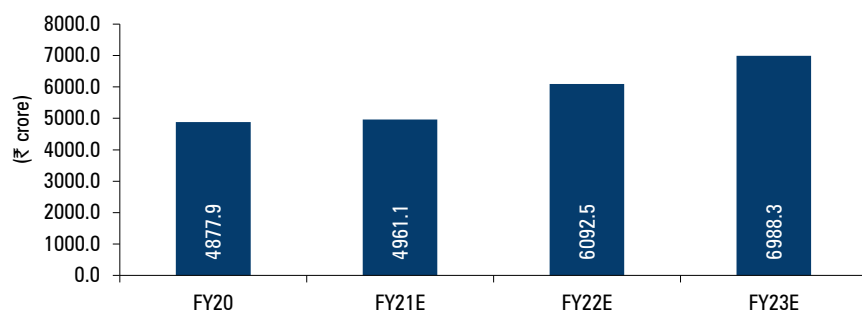
Source: Company, ICICI Direct Research

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	820.0	65.0	354.0
Chitradurga-Davanagere	100	NHAI	Karnataka	NH-48	72.7	6	1338.0	78.0	438.0
Jhansi-Khajuraho (Package I)	100	NHAI	UP & MP	NH-75/76	76.3	4	1342.0	108.0	467.0
Jhansi-Khajuraho (Package II)	100	NHAI	UP & MP	NH-75/76	85.4	4	1262.0	83.0	466.0
Chakeri-Allahabad	100	NHAI	UP	NH-2	145.1	6	2018.0	115.0	498.0
Aligarh Kanpur	100	NHAI	UP	NH-91	45.0	4	1104.0	85.0	320.0
Challakere - Hariyur	100	NHAI	Karnataka	NH-150A	55.7	4	1013.0	8.0	-
Jagdishpur - Faizabad	100	NHAI	UP	NH-330A	60.2	4	1530.0	0.3	-
Mitrasen to Kanpur	100	NHAI	UP	NH-91	60.6	4	2052.0	0.3	-
Unnao-Lalganj	100	NHAI	UP	NH-232A	70.0	4	1602.0	0.3	-
Meerut - Nazibabad	100	NHAI	UP	NH-119	53.9	4	1412.0	-	-
Total					808.4		15493.0	543	2546.0

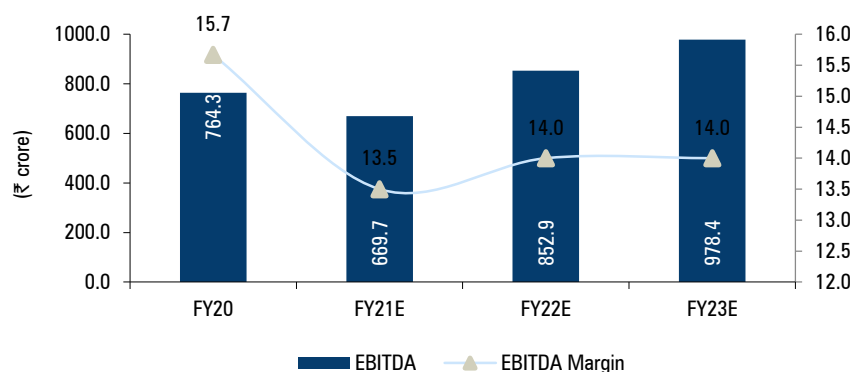
Source: Company, ICICI Direct Research

Exhibit 7: Revenue to witness sharp recovery in FY22E



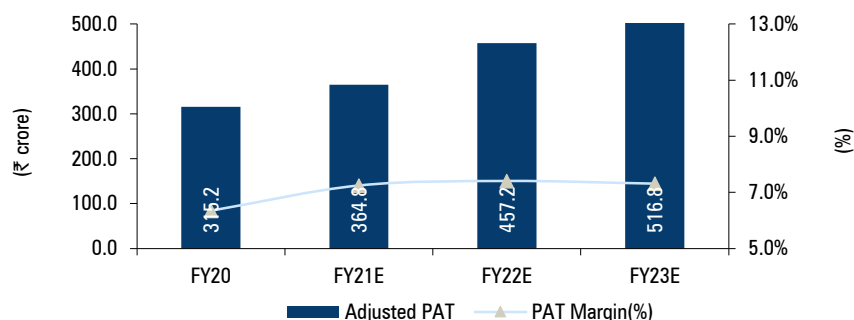
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA & EBITDA margin trend



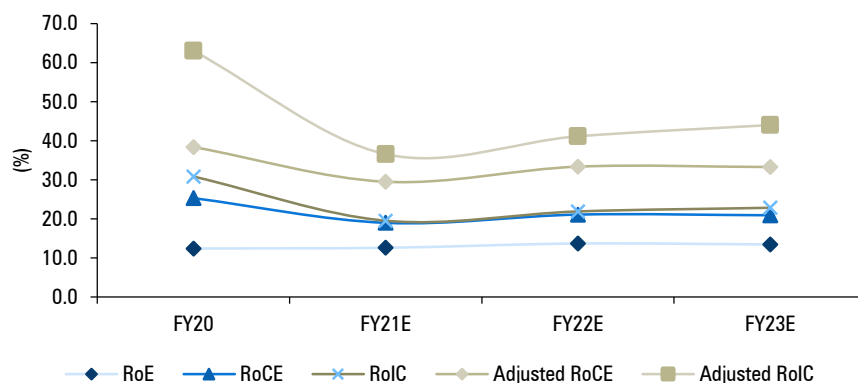
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Valuation & Outlook

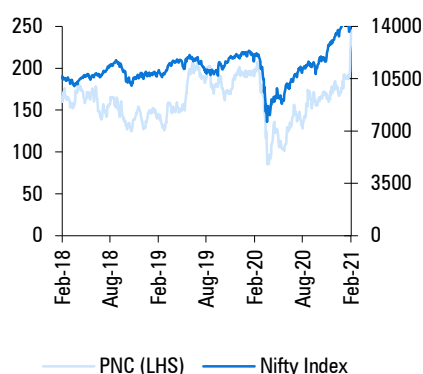
PNC remains our preferred pick in the EPC space given its robust order book, healthy return ratios and lean balance sheet. Irrespective of its asset monetisation plan fructification, sufficient internal accruals from current order book and current cash is enough for equity infusion. Government focus on roads and higher allocation in Union Budget also bode well for the company. We maintain our **BUY** rating with a revised SoTP target price of ₹ 300/share. We value its construction business at ₹ 258/share (at 6.5x FY23E EV/EBITDA implying ~15x FY22 EPS).

Exhibit 11: SoTP valuation

Entity	Per share (₹)		Comment
Construction Business	6,359	248	6.5x FY23 EV/EBITDA
BOT & HAM Projects	1,138	44	
Bareilly Almora	63	2	
Gwalior Bhind	154	6	
Raibareli Jaunpur	71	3	
Narela Industrial Area	120	5	
Kanpur Kabrai	187	7	
Investment in HAM projects	543	21	1x Equity Invested
Less: Net Debt	(250)	(10)	FY23E net debt
Target Price	7,748	302	
Rounded off target price	302	300	

Source: Company, ICICI Direct Research

Exhibit 12: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement ₹ crore

(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	4,877.9	4,961.1	6,092.5	6,988.3
Other operating income	-	-	-	-
Other income	88.5	74.0	81.4	81.4
Total Revenues	4,966.4	5,035.1	6,173.9	7,069.7
Raw Material Expense	3,371.0	3,472.7	4,264.7	4,891.8
Employee expenses	265.1	258.0	310.7	356.4
Other Expenses	477.5	560.6	664.1	761.7
Total Operating Exp	4,113.6	4,291.3	5,239.5	6,009.9
EBITDA	764.3	669.7	852.9	978.4
Interest	114.4	89.7	117.3	128.1
Depreciation	126.4	117.7	144.6	171.7
PBT	612.0	536.5	672.4	760.1
Total Tax	151.7	171.7	215.2	243.2
Reported PAT	460.3	364.8	457.2	516.8
Adjusted PAT	315.2	364.8	457.2	516.8
EPS (Diluted)	17.9	14.2	17.8	20.1

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore

₹ crore	FY20	FY21E	FY22E	FY23E
Profit after Tax	460.3	364.8	457.2	516.8
Depreciation	126.4	117.7	144.6	171.7
Other Income	-88.5	-74.0	-81.4	-81.4
Cash Flow before WC changes	764.4	669.8	852.9	978.4
Net Increase in Current Assets	-172.6	-950.1	-698.6	-523.2
Net Increase in Current Liabilities	312.0	421.9	446.9	353.8
Net CF from Op. Activities	752.0	-30.0	386.0	565.7
(Purchase)/Sale of Fixed Assets	-109.0	-150.0	-100.0	-100.0
Purchase of Investment	-125.1	-200.0	-200.0	-200.0
Other Income	88.5	74.0	81.4	81.4
Net CF from Inv. Activities	-145.6	-276.0	-218.6	-218.6
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-114.4	-89.7	-117.3	-128.1
Net CF from Fin. Activities	-175.9	-23.8	-130.1	-142.5
Net Cash flow	430.5	-329.8	37.4	204.7
Opening Cash/ Cash Equiv.	309.4	740.1	410.3	447.7
Closing Cash/ Cash Equiv.	740.1	410.3	447.7	652.4

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet ₹ crore

(₹ Crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	2,495.3	2,849.9	3,294.4	3,796.9
Networth	2,546.6	2,901.2	3,345.7	3,848.2
Secured Loan	326.0	402.0	402.0	402.0
Unsecured Loan	-	-	-	-
Total Debt	326.0	402.0	402.0	402.0
Deferred Tax Liability	-	-	-	-
Total Liabilities	2,873	3,303	3,748	4,250
Assets				
Gross Block	959.6	1,120.5	1,220.5	1,320.5
Net Block	586.5	618.6	574.0	502.3
Capital WIP	-	-	-	-
Non-current Investments	979.7	1,179.7	1,379.7	1,579.7
Current Assets				
Inventories	267.3	271.8	333.8	382.9
Sundry Debtors	803.5	1,087.4	1,335.3	1,531.7
Loans and Advances	712.8	1,087.4	1,435.5	1,627.4
Other Current Assets	256.5	543.7	584.2	670.1
Cash	740.1	410.3	447.7	652.4
Total Current Assets	2,842.5	3,462.9	4,198.9	4,926.8
Creditors	467.5	747.6	918.0	1,053.0
Provisions	10.8	11.0	13.5	15.5
Other Current Liabilities	413.0	543.7	667.7	765.8
Other Long Term Liabilities	646.3	657.3	807.2	925.9
Total Current Liabilities	1,537.7	1,959.6	2,406.5	2,760.3
Net Current Assets	1,304.9	1,503.3	1,792.4	2,166.5
Total Assets	2,873	3,303	3,748	4,250

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS (Fully Diluted)	17.9	14.2	17.8	20.1
Cash EPS	22.9	18.8	23.5	26.8
BV	99.3	113.1	130.4	150.0
Dividend per share	0.5	0.4	0.5	0.6
Operating Ratios				
EBITDA / Net Sales	15.7	13.5	14.0	14.0
PAT / Net Sales	6.5	7.4	7.5	7.4
Inventory Days	20.0	20.0	20.0	20.0
Debtor Days	60.1	80.0	80.0	80.0
Creditor Days	35.0	55.0	55.0	55.0
Return Ratios				
RoE	12.4	12.6	13.7	13.4
RoCE	25.3	19.0	21.1	20.9
RoIC	30.8	19.5	21.9	22.8
Valuation Ratios				
EV / EBITDA	7.6	9.3	7.2	6.1
P/E	13.7	17.2	13.7	12.2
EV / Net Sales	1.2	1.3	1.0	0.9
Market Cap / Sales	1.3	1.3	1.0	0.9
Price to Book Value	2.5	2.2	1.9	1.6
Turnover Ratios				
Asset turnover	1.7	1.5	1.6	1.6
Gross Block Turnover	5.1	4.4	5.0	5.3
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.3	1.5	1.5	1.5
Debt / EBITDA	0.4	0.6	0.5	0.4
Quick Ratio	1.2	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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