

## Retail Equity Research (South India Focus)

# PNC Infratech Ltd

## Construction &amp; Engineering

BSE CODE : 539150

NSE CODE: PNCINFRA

BLOOMBERG CODE: PNCL:IN

SENSEX : 52,736

**BUY**

12 Months Investment Period

Rating as per Small Cap

**CMP Rs. 246 TARGET Rs. 310 RETURN 26%**

(Closing: 28-06-21)

**KEY CHANGES:**
**TARGET**
**RATING**
**EARNINGS**

## Ramp-up in execution...

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 revenue growth of 42% YoY in Q4FY21 (better than estimate) as project execution improved due to normalcy in operation post Covid.
- Order book (incl. L1) remains healthy at Rs16,000cr which is 3.3x FY21 revenue, provides revenue visibility for two to three years.
- EBITDA margin improved by 63bps to 14.1% aided by higher execution and lower employee cost (as a % of revenue).
- PAT grew by 70% YoY, further helped by fall in interest costs and higher other income.
- The management expects order inflow of Rs8,000 to Rs9,000cr in FY22, based on strong order pipeline from NHAI.
- Growth in the order book and pick up in execution will drive earnings. We reiterate our Buy rating on the stock with a TP of Rs310 based on a P/E of 13x on FY23E EPS and BOT/HAM projects at 0.5xP/B.

## Execution improved due to normalcy in operation...

PNC's standalone execution was better than our estimate in Q4FY21. The company registered a revenue growth of 42% YoY to Rs1,644cr as project execution improved due to normalcy in operation post Covid. The management expect execution to be strong in the coming quarters as the company has not faced any execution challenges due to second wave of Covid (April to June 2021 period) as construction work was permitted during lockdown. PNC expects FY22 revenue to increase by 20% YoY (not expecting further Covid related challenges on execution) as the company got appointed date for all pending HAM & EPC projects and execution is picking up. PNC has already infused equity of Rs599cr for HAM projects and further requires Rs860cr of equity in the next three years.

## Robust order book...

FY21 executable order book stood at Rs16,000 (incl. projects in L1) which is 3.3x FY21 revenue and provides strong revenue visibility in the coming years. PNC received Rs7,677cr of orders in FY21 and expects fresh orders of Rs8,000cr to Rs9,000cr in FY22, based on strong order pipeline from NHAI. The company is diversified into irrigation and water supply projects, which comprises 28% of the total order book. PNC has a portfolio of 11 HAM projects of which 4 projects received PCOD (Provisional Commercial Operation Date) and 7 are under construction. The management indicated that the company has initiated the process to monetize BOT/ HAM projects which will help the company to meet future capital requirement for growth.

## Margins to normalise...

EBITDA margin improved by 63bps YoY at 14.1% due to superior order execution and lower employee cost as a % of revenue. PAT grew by 70% YoY to Rs129cr, further helped by fall in interest cost (-53% YoY) and higher other income (7% YoY). The company expects margins to be in the range of 13.5% to 14% in FY22, aided by strong execution.

## Valuations

Strong order book and pick-up in execution, we expect EPS to grow at 26% CAGR over FY21-FY23E. We reiterate our Buy rating on the stock and value EPC business at a P/E of 13x on FY23E EPS & BOT/HAM projects at 0.5x P/B with a TP of Rs 310.

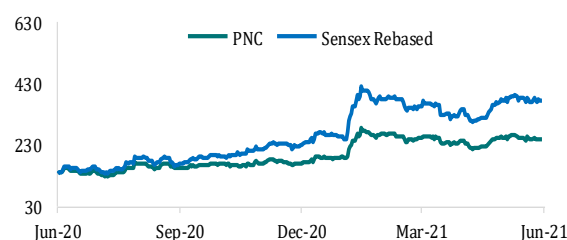
### Company Data

Market Cap (cr)	₹ 6,308
Enterprise Value (cr)	₹ 5,873
Outstanding Shares (cr)	25.7
Free Float	43.93%
Dividend Yield	0.2%
52 week high	₹ 291
52 week low	₹ 127
6m average volume (cr)	0.01
Beta	0.67
Face value	₹ 2

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	56.07	56.07	56.07
FII's	6.06	5.82	10.79
MFs/Insti	24.29	23.82	27.69
Public	13.58	14.29	5.45
Total	100.0	100.0	100.0
Promoter Pledge%	Nil	Nil	Nil

Price Performance*	3 month	6 Month	1 Year
Absolute Return	-6%	44%	77%
Absolute Sensex	5%	11%	50%
Relative Return*	-11%	33%	27%

\*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	4,925	5,781	7,058
Growth (%)	1.0	17.4	22.1
EBITDA	673	780	967
EBITDA Margin(%)	13.7	13.5	13.7
PAT Adj.	361	459	571
Growth (%)	-21.6	27.1	24.4
Adj.EPS	14.1	17.9	22.3
Growth (%)	-21.6	27.1	24.4
P/E	17.5	13.7	11.0
P/B	2.2	1.9	1.6
EV/EBITDA	8.7	7.7	6.0
ROE (%)	13.2	14.7	15.8
D/E	0.09	0.08	0.08

## SOTP Valuation

Particulars	Invested Equity (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC		289	P/E 13x FY23E EPS
BOT Projects	463	9	0.5x P/BV
HAM	599	12	0.5x P/BV
<b>Total Value per share</b>		<b>310</b>	

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr)	Q4FY21	Q4FY20	% YoY Growth	Q3FY21	% QoQ Growth	FY21	FY20	% YoY Growth
<b>Sales</b>	<b>1,644</b>	<b>1,158</b>	42.0	<b>1,322</b>	24.3	<b>4,925</b>	<b>4,878</b>	1.0
<b>EBITDA</b>	<b>232</b>	<b>156</b>	48.7	<b>179</b>	30.2	<b>673</b>	<b>764</b>	-12.0
EBITDA margins %	14.1	13.5	63bps	13.5	63bps	13.7	15.7	-201bps
Depreciation	30	32	-7.3	28	6.5	112	126	-11.1
<b>EBIT</b>	<b>219</b>	<b>140</b>	56.9	<b>150</b>	45.9	<b>577</b>	<b>654</b>	-11.7
Interest	15	32	-53.3	15	-3.1	77	114	-32.6
Other Income	17	16	7.0	24	(29.6)	75	88	-15.0
Exceptional Items	-	-	0.0	-	0.0	-	-	0.0
<b>PBT</b>	<b>205</b>	<b>108</b>	89.1	<b>159</b>	28.4	<b>559</b>	<b>612</b>	-8.7
Tax	75	32	133.9	56	34.0	197	152	29.6
<b>Reported PAT</b>	<b>129</b>	<b>76</b>	70.1	<b>103</b>	25	<b>362</b>	<b>460</b>	-21.4
Adjustments	1	0.0	0.0	-	0.0	1	109	0.0
<b>Adj PAT</b>	<b>129</b>	<b>76</b>	69.0	<b>103</b>	24.6	<b>361</b>	<b>351</b>	2.9
No. of Shares	26	26		26		26	26	
<b>EPS (Rs)</b>	<b>5.0</b>	<b>3.0</b>	69.0	<b>4.0</b>	24.6	<b>14.1</b>	<b>13.7</b>	2.9

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	5,895	7,355	5,781	7,058	-1.9	-4.0
EBITDA	796	1,008	780	967	-1.9	-4.0
Margins (%)	13.5	13.7	13.5	13.7	0bps	0bps
Adj. PAT	471	593	459	571	-2.5	-3.6
EPS	18	23	18	22	-2.5	-3.6

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>3,097</b>	<b>4,878</b>	<b>4,925</b>	<b>5,781</b>	<b>7,058</b>
% change	66.8	57.5	1.0	17.4	22.1
<b>EBITDA</b>	<b>457</b>	<b>764</b>	<b>673</b>	<b>780</b>	<b>967</b>
% change	43.4	67.1	-12.0	16.0	23.9
Depreciation	92	126	112	135	166
<b>EBIT</b>	<b>365</b>	<b>638</b>	<b>560</b>	<b>645</b>	<b>801</b>
Interest	64	114	77	88	97
Other Income	43	88	75	85	95
<b>PBT</b>	<b>344</b>	<b>612</b>	<b>559</b>	<b>642</b>	<b>799</b>
% change	47.1	77.9	-8.7	14.9	24.4
Tax	19	152	197	183	228
Tax Rate (%)	5.6	24.8	35.2	28.5	28.5
<b>Reported PAT</b>	<b>325</b>	<b>460</b>	<b>362</b>	<b>459</b>	<b>571</b>
Adj*	-66	0	-1	0	0
<b>Adj PAT</b>	<b>259</b>	<b>460</b>	<b>361</b>	<b>459</b>	<b>571</b>
% change	29	78	-22	27	24
No. of shares (cr)	26	26	26	26	26
<b>Adj EPS (Rs.)</b>	<b>10</b>	<b>18</b>	<b>14</b>	<b>18</b>	<b>22</b>
% change	28.8	77.7	-21.6	27.1	24.4
DPS (Rs.)	0.6	0.9	0.9	0.9	0.9

### CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net inc. + Depn.</b>	<b>436</b>	<b>738</b>	<b>671</b>	<b>777</b>	<b>965</b>
Non-cash adj.	46	-158	-21	-72	-127
Changes in W.C	-340	-235	-297	-431	-242
<b>C.F. Operation</b>	<b>186</b>	<b>433</b>	<b>428</b>	<b>360</b>	<b>692</b>
Capital exp.	-295	-126	-197	-99	-100
Change in inv.	-111	101	-73	-75	-123
Other invest.CF	0	0	0	0	0
<b>C.F - Investment</b>	<b>-449</b>	<b>-114</b>	<b>-345</b>	<b>-259</b>	<b>-318</b>
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
<b>C.F - Finance</b>	<b>425</b>	<b>53</b>	<b>-78</b>	<b>-219</b>	<b>-90</b>
Chg. in cash	162	373	5	-119	283
Closing cash	309	682	688	569	852

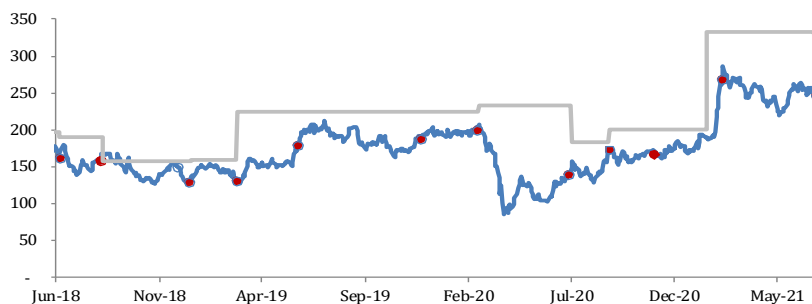
### BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	309	682	688	569	852
Accounts Receivable	615	804	839	1,014	1,160
Inventories	404	267	354	450	534
Other Cur. Assets	991	1,275	1,548	1,869	2,127
Investments	774	673	747	821	944
Gross Fixed Assets	917	1,037	1,237	1,337	1,437
Net Fixed Assets	614	587	654	518	451
CWIP	6	-	3	4	4
Intangible Assets	2	2	2	2	2
Def. Tax (Net)	1	121	23	(0)	(4)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>3,716</b>	<b>4,410</b>	<b>4,857</b>	<b>5,246</b>	<b>6,071</b>
Current Liabilities	647	748	833	990	1,232
Provisions	12	11	24	29	33
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	3,294	3,842
Shareholder's Fund	2,115	2,547	2,908	3,345	3,893
<b>Total Liabilities</b>	<b>3,716</b>	<b>4,410</b>	<b>4,857</b>	<b>5,246</b>	<b>6,071</b>
<b>BVPS (Rs.)</b>	<b>82</b>	<b>99</b>	<b>113</b>	<b>130</b>	<b>152</b>

### RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	14.8	15.7	13.7	13.5	13.7
EBIT margin (%)	11.8	13.1	11.4	11.2	11.3
Net profit mgn.(%)	8.4	9.4	7.3	7.9	8.1
ROE (%)	13.2	19.8	13.2	14.7	15.8
ROCE (%)	11.3	16.4	9.5	11.4	12.1
<b>W.C &amp; Liquidity</b>					
Receivables (days)	76.9	53.1	60.9	58.5	56.2
Inventory (days)	50.0	36.3	32.4	35.7	35.9
Payables (days)	80.9	51.0	61.9	73.6	78.6
Current ratio (x)	3.5	4.0	4.0	3.8	3.7
Quick ratio (x)	1.4	2.0	1.8	1.6	1.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.0	5.0	4.3	4.5	5.1
Total asset T.O (x)	1.0	1.2	1.1	1.1	1.2
Int. coverage ratio (x)	5.7	5.6	7.3	7.3	8.3
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	2.0	1.2	1.2	1.0	0.8
EV/EBITDA (x)	13.7	7.7	8.7	7.7	6.0
P/E (x)	24.3	13.7	17.5	13.7	11.0
P/BV (x)	3.0	2.5	2.2	1.9	1.6

## 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

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
<b>Buy</b>	<b>Upside is above 10%</b>	<b>Upside is above 15%</b>	<b>Upside is above 20%</b>
<b>Accumulate</b>	-	<b>Upside is between 10%-15%</b>	<b>Upside is between 10%-20%</b>
<b>Hold</b>	<b>Upside is between 0% - 10%</b>	<b>Upside is between 0%-10%</b>	<b>Upside is between 0%-10%</b>
<b>Reduce/sell</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>
<b>Not rated</b>			

### 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.

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