Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 310**	
Price Target: **Rs. 386**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 7,960 cr
52-week high/low:	Rs. 332/138
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	9.3
DII	29.2
Others	5.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.5	35.8	13.3	116.8
Relative to Sensex	-2.4	23.2	8.1	73.7

Sharekhan Research, Bloomberg

PNC Infratech Ltd

Strong show amidst challenges

Infrastructure | Sharekhan code: PNCINFRA | Result Update

Stock Update

Summary

- We retain a Buy rating on PNC Infratech Limited (PNC) with a revised price target of Rs. 386, owing to a strong order book and healthy earnings growth outlook.
- Standalone execution and OPM was better than expected in Q1FY2022. The order book at Rs. 15,500 crore, 3x TTM revenues provides strong revenue visibility.
- The management retains 25-30% standalone revenue growth guidance along with 13.5-14% OPM for FY2022. Order intake target unchanged at Rs. 8000 crore for FY2022.
- Asset divestment in final stages and is expected to conclude during FY2022. Divestment portfolio comprise equity of Rs. 940 crore and debt of Rs. 4700 crore.

PNC Infratech Limited (PNC) reported better-than-expected standalone revenues and OPM for Q1FY2022. Standalone revenues grew 38% y-o-y (-24% q-o-q) to Rs. 1251 crore which was higher than our estimate. The OPM expanded by 79 bps y-o-y (-11bps q-o-q) to 14%, leading to a 46.5% y-o-y rise in operating profit at Rs. 175 crore. Further, lower interest costs (down 29% y-o-y) was offset by lower other income (down 7% y-o-y), higher depreciation (up 17% y-o-y) and higher effective tax rate (35.1% vs 30.6% in Q1FY2021). Strong overall operational performance led to a rise of 55% (-28% q-o-q) in standalone net profit at Rs. 93 crore. The project award activities remained muted in Q1FY2022 while PNC had received strong order intake of Rs. 7,677 crore during FY2021. The current order book of the company including EPC value of seven water supply projects stands at Rs. 15,500 crore translating to almost 3x TTM standalone revenues providing healthy revenue visibility over the next two years. The management retained standalone revenue growth guidance of 25-30% for FY2022 along with OPM of 13.5%-14%. It also maintained order intake target of Rs. 8000 crore for FY2022 as it would be submitting bids amounting Rs. 30,000 crore over the next 3-4 months. The company's pending equity requirement of Rs. 846 crore over 2-3 years (out of Rs. 1468 crores) would be financed through internal accruals while the company expects to generate Rs. 2300 crore cash flows over a three year period. Hence, it can further take projects with equity commitment of Rs. 1500 crores. On asset monetization front, the company is in the final stages for divestment of HAM projects where CoD is received and one NHAI annuity project. It expects to conclude asset monetization by FY2022 end. The asset portfolio comprises equity investment of Rs. 940 crore and debt of Rs. 4700 crore. On water supply projects of 3430 villages, it would commence work on Rs. 800-900 crore by September as it has submitted DPRs for 900 villages. Further, it expects to approve DPRs of all 3430 villages by FY2022 end. The work on entire 3430 villages is expected to complete by 24-30 months. PNC continues to be net cash at standalone level of Rs. 300 crore while consolidated net debt to equity is comfortable at 1.37x. We have introduced FY2024E earnings in this note. PNC's strong order backlog is expected to lead to strong 19% CAGR in net earnings over FY2021-FY2024E. Hence, we retain our Buy rating on the stock with a revised price target of Rs. 386.

Key positives

- PNC continued to report strong execution.
- A robust order book offers strong revenue visibility.
- Strong liquidity position at both standalone and consolidated levels.

Key negatives

- Rise in net working capital days led by payments to creditors and increase in debtor days.

Our Call

Valuation –Retain Buy with a revised price target of Rs. 386: 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 company is one of the key beneficiaries of the government's continuous thrust on road sector. The company has been strengthening its balance sheet with rising cash balances and improving working capital levels. Further, fructification of asset divestment would further aid in strengthening its healthy balance sheet. We have introduced FY2024E earnings in this note. PNC's strong order backlog is expected to lead to strong 19% CAGR in net earnings over FY2021-FY2024E. Hence, we retain our Buy rating on the stock with a revised price target of Rs. 386.

Key risk

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

Valuation (Standalone) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	4,925.4	5,852.0	6,764.6	7,476.4
OPM (%)	13.7	13.7	14.1	14.2
Adjusted PAT	361.9	433.6	536.3	610.1
% YoY growth	*3.5*	*19.8*	*23.7*	*13.8*
Adjusted EPS (Rs.)	14.1	16.9	20.9	23.8
P/E (x)	22.0	18.4	14.8	13.0
P/B (x)	2.7	2.4	2.0	1.8
EV/EBIDTA (x)	11.8	9.9	8.3	7.5
RoNW (%)	13.3	13.9	15.0	14.7
RoCE (%)	13.9	14.6	15.5	15.2

Source: Company; Sharekhan estimates

Better-than-expected execution; Strong order backlog: PNC Infratech Limited (PNC) reported better-than-expected standalone revenues and OPM for Q1FY2022. Standalone revenues grew 38% y-o-y (-24% q-o-q) to Rs. 1251 crore which was higher than our estimate. The OPM expanded by 79 bps y-o-y (-11bps q-o-q) to 14%, leading to a 46.5% y-o-y rise in operating profit at Rs. 175 crore. Further, lower interest costs (down 29% y-o-y) was offset by lower other income (down 7% y-o-y), higher depreciation (up 17% y-o-y) and higher effective tax rate (35.1% vs 30.6% in Q1FY2021). Strong overall operational performance led to 55% y-o-y rise (-28% q-o-q) in standalone net profit at Rs. 93 crore. The project award activities remained muted in Q1FY2022 while PNC had received strong order intake of Rs. 7,677 crore during FY2021. The current order book of the company including EPC value of seven water supply projects stands at Rs. 15,500 crore translating to almost 3x TTM standalone revenues providing healthy revenue visibility over the next two years.

Guidance retained and asset monetization by FY2022 end: The management retained standalone revenue growth guidance of 25-30% for FY2022 along with OPM of 13.5%-14%. It also maintained order intake target of Rs. 8000 crore for FY2022 as it would be submitting bids amounting Rs. 30,000 crore over the next 3-4 months. The company's pending equity requirement of Rs. 846 crore over 2-3 years (out of Rs. 1468 crores) would be financed through internal accruals while the company expects to generate Rs. 2300 crore cash flows over a three year period. Hence, it can further take projects with equity commitment of Rs. 1500 crores. On asset monetization front, the company is in final stages for divestment of HAM projects where CoD is received and one NHAI annuity project. It expects to conclude asset monetization by FY2022 end. The asset portfolio comprises equity investment of Rs. 940 crore and debt of Rs. 4700 crore. On water supply projects of 3430 villages, it would commence work on Rs. 800-900 crore by September as it has submitted DPRs for 900 villages. Further, it expects to approve DPRs of all 3430 villages by FY2022 end. The work on entire 3430 villages is expected to complete by 24-30 months.

Key Conference call takeaways

- **Guidance:** The company retained 25-30% y-o-y standalone revenue growth guidance along with OPM of 13.5-14% for FY2022. Currently, labour efficiency is at 100% of thePre-covid level. It also maintained order inflow target of Rs. 8000 crore for FY2022. It is expected to submit Rs. 30,000 crore bids over 3-4 months. It can take additional 3-4 big HAM projects.
- **Industry:** The road sector awarding, construction and tolling was impacted by covid second wave during Q1FY2022. The company expects awarding activity to pick up from Q3FY2022. Tolling and pace of execution is expected to pick up from September.
- **Divestment:** The company is in final stages for divestment of assets and expects it to conclude in this financial year. It would be divesting HAM projects where CoD is received and one NHAI annuity project. The portfolio will have Rs. 940 crore equity and Rs. 4700 crore debt.
- **Equity infusion:** The company has infused Rs. 622 crore equity out of Rs. 1468 crore. The balance Rs. 846 crore (Rs. 350 crore in FY2022, Rs. 319 crore in FY2023) is expected to be invested over 2-3 years from internal accruals.
- **Project status:** The company received appointed dates for two EPC and one HAM project. The company received PCoD for three HAM projects in June 2021.
- **Order book:** The current order book stands at Rs. 15,500 crore comprising road EPC (33%), HAM (57%) and Water & Irrigation (10%).
- **Water projects:** Out of 3430 villages, it has submitted DPRs for 900 villages. The company would commence physical work on Rs. 600-800 crore project by September. It expects to approve DPR of entire 3430 villages by FY2022 end.

- **Book keeping nos:** The mobilisation advance stood at Rs. 587 crore, Retention money at Rs. 140 crores, Inventory at Rs. 405 crore, Payables at Rs. 534 crore.
- **Capex:** it will be incurring Rs. 100-125 crore capex for FY2022.

Result Snapshot (Standalone) Rs cr

Particulars	Q1FY2022	Q1FY2021	y-o-y%	Q4FY2021	q-o-q%
Net Revenues	**1251.2**	**905.3**	**38.2%**	**1644.3**	**-23.9%**
Other income	17.8	19.1	-7.1%	17.1	4.1%
Total income	1268.9	924.4	37.3%	1661.3	-23.6%
Total expenses	1075.7	785.5	37.0%	1411.9	-23.8%
Operating profit	**175.4**	**119.8**	**46.5%**	**232.4**	**-24.5%**
Depreciation	31.5	27.0	16.6%	30.0	5.0%
Interest	18.0	25.3	-28.7%	14.8	22.0%
Profit Before Tax	**143.7**	**86.6**	**65.9%**	**204.7**	**-29.8%**
Taxes	50.4	26.5	90.3%	75.3	-33.1%
PAT	**93.3**	**60.1**	**55.2%**	**129.4**	**-27.9%**
No of equity shares	25.7	25.7	0.0%	25.7	0.0%
EPS (Rs.)	**3.6**	**2.3**	**55.2%**	**5.0**	**-27.9%**
OPM (%)	14.0%	13.2%	79 bps	14.1%	-11 bps
NPM (%)	7.5%	6.6%	82 bps	7.9%	-41 bps
Tax rate (%)	35.1%	30.6%	449 bps	36.8%	-172 bps

Source: Company; Sharekhan Research

Outlook and Valuation

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

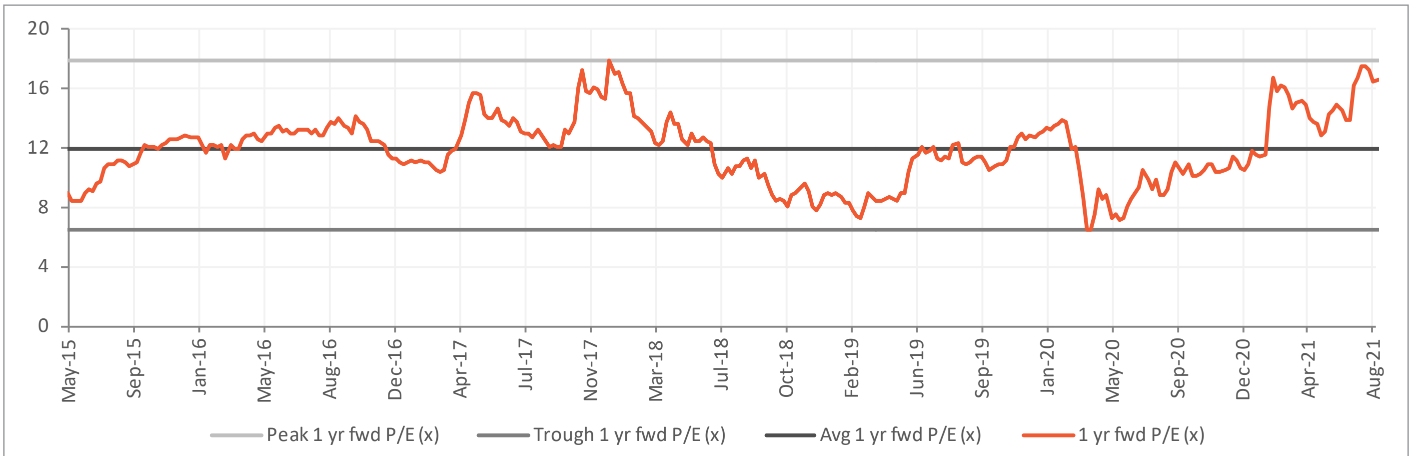
■ Company Outlook – Strong growth outlook over FY2021-FY2024

The management retained standalone revenue growth guidance of 25-30% for FY2022 along with OPM of 13.5%-14%. It also maintained order intake target of Rs. 8000 crore for FY2022 as it would be submitting bids amounting Rs. 30,000 crore over next 3-4 months. The current order book of the company including EPC value of seven water supply projects stands at Rs. 15,500 crore translating to almost 3x TTM standalone revenues providing healthy revenue visibility over the next two years. On the asset monetization front, the company is in final stages for divestment of HAM projects where CoD is received and one NHAI annuity project. It expects to conclude asset monetization by FY2022 end. The asset portfolio comprises equity investment of Rs. 940 crore and debt of Rs. 4700 crore.

■ Valuation – Retain Buy with a revised price target of Rs. 386

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 company is one of the key beneficiaries of the government's continuous thrust on road sector. The company has been strengthening its balance sheet with rising cash balances and improving working capital levels. Further, fructification of asset divestment would further aid in strengthening its healthy balance sheet. We have introduced FY2024E earnings in this note. PNC's strong order backlog is expected to lead to strong 19% CAGR in net earnings over FY2021-FY2024E. Hence, we retain our Buy rating on the stock with a revised price target of Rs. 386.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
PNC Infratech	18.4	14.8	9.9	8.3	2.4	2.0	13.9	15.0
KNR Constructions	24.8	20.3	13.7	11.4	3.5	3.0	15.7	16.5

Source: Sharekhan Research

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, it 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, which are operational. The company has 11 HAM projects, of which five are under construction, one project has received PCOD, one project has financial closure achieved, 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 providing 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 & MD
Mr. Naveen Kumar Jain	Promoter
Mr. Chakresh Kumar Jain	Managing Director & CFO
Mr. Yogesh Kumar Jain	Managing Director

Source: Company Website

Top 7 shareholders

Sr. No.	Holder Name	Holding (%)
1	NCJ INFRSTURCTURE PVT LTD	9.65
2	Jain Yogesh Kumar	8.53
3	HDFC Asset Management Co. Ltd.	8.38
4	Jain Pradeep Kumar	8.03
5	JAIN NAVIN KUMAR	7.05
6	JAIN MADHAVI	7.02
7	ICICI Prudential Asset Management	4.98
8	Jain Chakresh Kumar	4.59
9	JAIN VAIBHAV	4.55
10	JAIN ASHITA	3.07

Source: Bloomberg (Old data)

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 detoriating 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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