PNC Infratech Ltd

Beneficiary of sectoral growth tailwinds

Infrastructure	Sharekhan code: PNCINFRA	Company Update

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. 359**	
Price Target: **Rs. 420**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

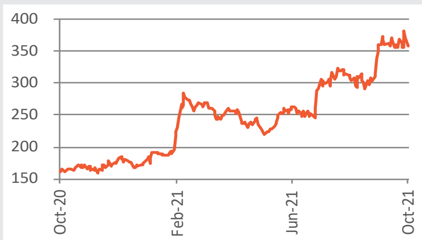
Company details

Market cap:	Rs. 9,214 cr
52-week high/low:	Rs. 394/147
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	-0.3	17.5	40.0	122.7
Relative to Sensex	-2.1	5.3	19.4	70.6

Sharekhan Research, Bloomberg

Summary

- We retain our Buy rating on PNC Infratech Limited (PNC) with a revised PT of Rs. 420, owing to a strong order book and healthy earnings growth outlook.
- We expect project tendering activities to gather pace in H2FY2022 with strong visibility over the next 4-5 years. NHAI's monetisation drive through InvIT and ToT routes to ease balance sheet and drive future project tendering.
- FasTag issuances and bank credit deployment towards roads continue to show strong growth during July and August.
- Strong order book at 3x its TTM revenue, robust execution, high cash flow generation, and asset monetisation to drive valuation.

PNC Infratech Limited (PNC) is slated to benefit from pick up in road project tendering beginning H2FY2022, while outlook over the next 4-5 years remains buoyant. NHAI's asset monetisation through InvIT and ToT modes is expected to ease the balance sheet, in turn driving future tendering pace. FasTag issuances and bank credit deployment in July and August continue to show strong growth. Strong order book at 3x TTM revenue, robust execution, high cash flow generation, and asset monetisation to drive valuation.

- **Expect project tendering to gather pace:** The roads sector project awards declined by 7% y-o-y (although up 2.4x versus FY2019 till August) to 3,261 kms during FY2022 till August 2021, while construction marginally improved by 1% y-o-y to 3,355 kms. The road project awards gathers pace from September each year and is peaking out in March. Consequently, we expect project tendering to gather pace in H2FY2022.
- **NHAI asset monetisation to drive tendering:** The government has set a target of realising Rs. 1.6 lakh crore by monetising (through ToT and InvIT), close to 27,000 kms roads in the next four years. NHAI's first InvIT of Rs. 5,100 crore to come up for subscription by mid-October. NHAI is also exploring the second tranche of follow-on issue. We expect asset monetisation to ease NHAI's balance sheet, in turn driving future project tendering pace.
- **Strong outlook over the next four to five years:** Road construction touched a record construction during FY2021 at 36km per day. For FY2022, NHAI has set a highway construction target of 4,600 km and plans to award Rs. 2.25 lakh crore. The road ministry has set a construction target of 12,000 kms of NHs in FY2022. While by 2024, it aims to construct 60,000 kms of NHs at a rate of 40km/day. We expect construction and awarding activities to remain at elevated levels over the next 4-5 years, given the government's focus on the road sector.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 420: 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 the 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. Hence, we retain our Buy rating on the stock with a revised price target (PT) of Rs. 420.

Key Risks

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)	25.5	21.2	17.2	15.1
P/B (x)	3.1	2.7	2.4	2.1
EV/EBIDTA (x)	13.7	11.4	9.6	8.6
RoNW (%)	13.3	13.9	15.0	14.7
RoCE (%)	13.9	14.6	15.5	15.2

Source: Company, Sharekhan estimates

Strong outlook for the road sector over the next five years

Road construction touched a record construction of 36km per day during FY2021. Mr. Nitin Gadkari, Minister, Road Transport and Highways, targets to achieve 100 km road construction per day. For FY2022, NHAI has set a highway construction target of 4,600 km and plans to award Rs. 2.25 lakh crore. The road ministry has set a target construction of 12,000 km of NHs in FY2022. While by 2024, it aims to construct 60,000 kms of NHs at a rate of 40km/day. The National Infrastructure Pipeline has pegged Rs. 20.34 lakh crore investments in roads over 2020 to 2025. We expect construction and awarding activities to remain at elevated levels over the next 4-5 years, given the government's focus on the road sector.

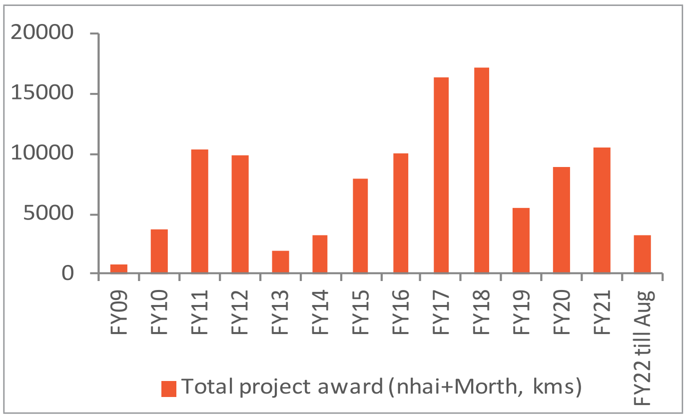
Monetisation of assets to ease NHAI balance sheet, in turn driving project tendering

The government has set a target of realising Rs. 1.6 lakh crore by monetising (through toll-operate-transfer and infrastructure investment trust) close to 27,000 kms roads in the next four years. NHAI's debt has risen to Rs. 3.07 lakh crore as of FY2021, up 23% y-o-y, which had been a matter of concern in the near past. NHAI has filed documents related to its first InvIT aimed at raising Rs. 5,100 crore with the SEBI and hopes it to come up for subscription by mid-October. The InvIT's first tranche is likely to consist of 586 kms of NH assets in Gujarat, Rajasthan, West Bengal, and Bihar. The NHAI is also exploring the second tranche of follow-on issue.

Key indicators on improving trajectory

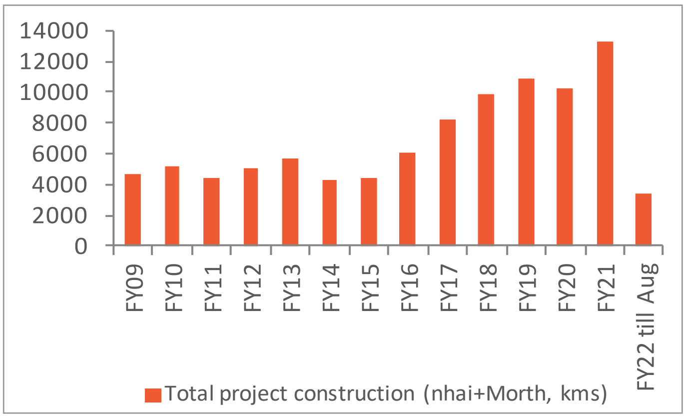
The roads sector project awards declined by 7% y-o-y (although up 2.4x versus FY2019 till August) to 3,261 during FY2022 till August 2021, while construction marginally improved by 1% y-o-y to 3,355 kms. Road project awards gather pace from September each year and peaking out in March. Consequently, we expect project tendering to gather pace in H2FY2022. Further, FASTag issuances continue to report strong growth with July and August witnessing rise of 22% m-o-m and 5% m-o-m, respectively. Bank credit deployment in the road sector has been rising in double digits since February 2021, with July and August 2021 reporting 30% y-o-y and 29% y-o-y growth, respectively. Higher deployment of bank credit to the road sector highlights easing of funding requirements for the sector and would aid in improving execution of under-construction projects and financial closure of newly bagged projects.

Project Award (MORTH+NHAI) Trend



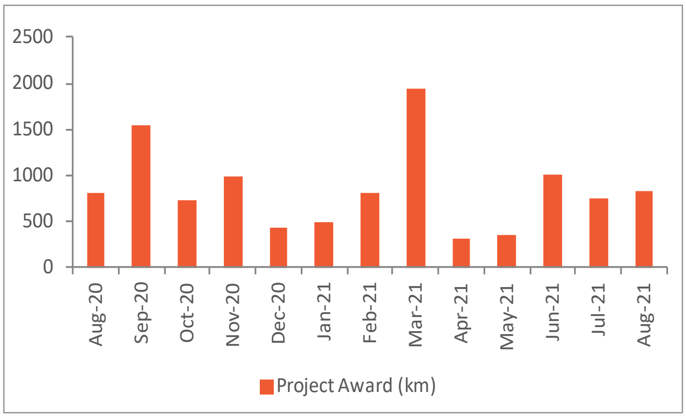
Source: Company, Sharekhan Research

Project Construction (MORTH+NHAI) Trend



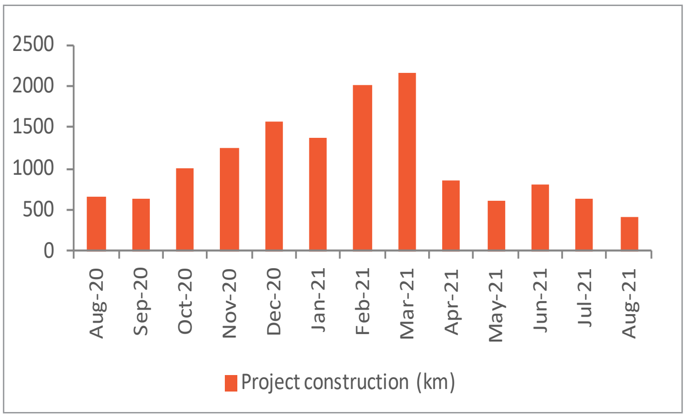
Source: Company, Sharekhan Research

Project Award Monthly Trend



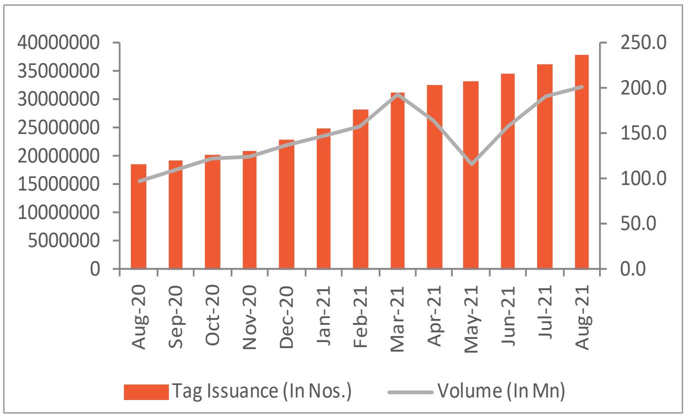
Source: Company, Sharekhan Research

Project Construction Monthly Trend



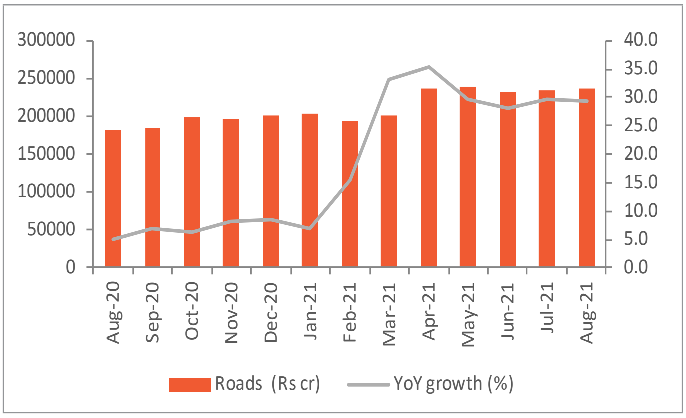
Source: Company, Sharekhan Research

FASTag Trend



Source: Company, Sharekhan Research

Bank Credit Deployment in Roads



Source: Company, Sharekhan Research

Strong order book and guidance

PNC had received strong order intake of Rs. 7,677 crore during FY2021, while project award activities remained muted in Q1FY2022. 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 its TTM standalone revenue, providing healthy revenue visibility over the next two years. Management had 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. 8,000 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 crore) would be financed through internal accruals, while the company expects to generate Rs. 2,300 crore cash flows over a three-year period. Hence, it can further take projects with equity commitment of Rs. 1,500 crore. On the asset-monetisation 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 monetisation by FY2022 end. The asset portfolio comprises equity investment of Rs. 940 crore and debt of Rs. 4,700 crore. On water supply projects of 3,430 villages, it would commence work on Rs. 800 crore-900 crore by September, as it has submitted DPRs for 900 villages. Further, it expects to approve DPRs of all 3,430 villages by FY2022 end. Work on entire 3430 villages is expected to be completed by 24-30 months.

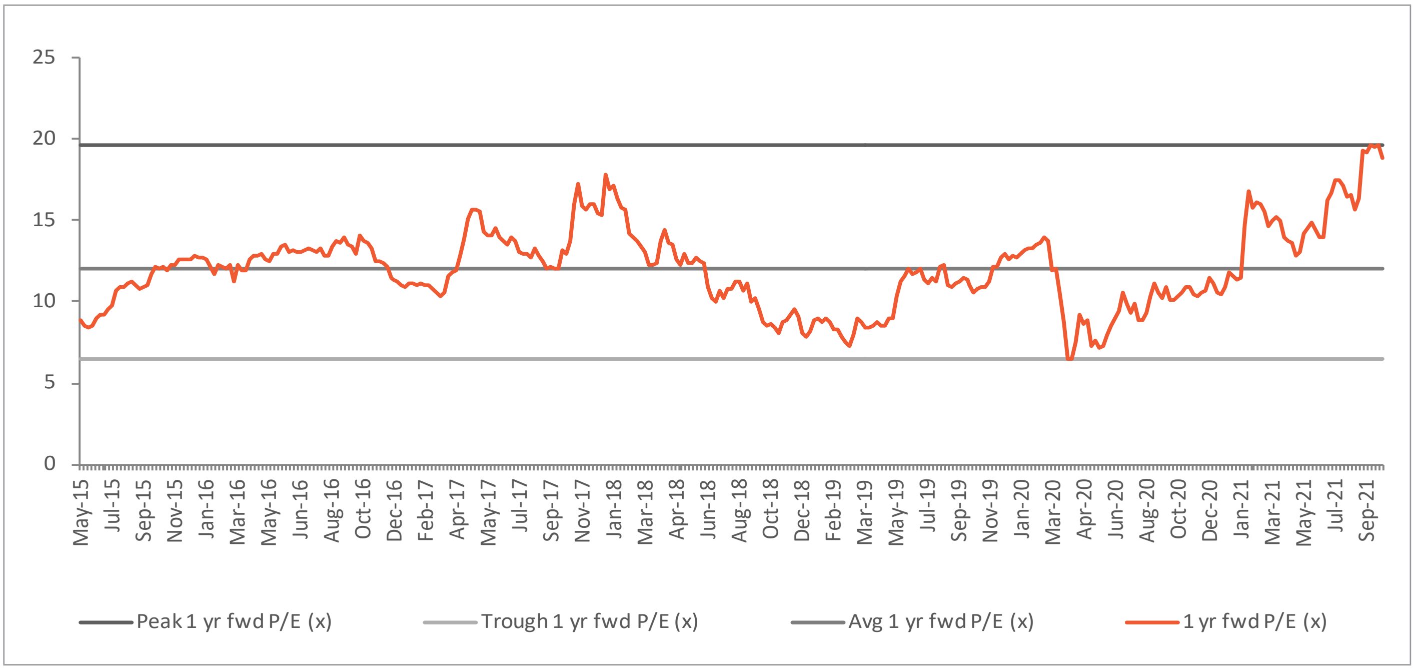
Outlook and Valuation

- **Sector outlook – 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. Working capital issues of the companies have been handled by proactive payments from the NHAI.

- **Company outlook – Strong growth outlook over FY2021-FY2024:** Management has retained standalone revenue growth guidance of 25-30% for FY2022 along with OPM of 13.5-14%. It has also maintained order intake target of Rs. 8,000 crore for FY2022, as it would be submitting bids amounting Rs. 30,000 crore over the 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 revenue, providing healthy revenue visibility over the next two years. On the asset-monetisation 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 monetisation by FY2022 end. The asset portfolio comprises equity investment of Rs. 940 crore and debt of Rs. 4,700 crore.

- **Valuation – Retain Buy with a revised PT of Rs. 420:** 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 the 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 aid in strengthening its healthy balance sheet. Hence, we retain our Buy rating on the stock with a revised PT of Rs. 420.

One-year forward P/E (x) band



Source: Company Data; 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	17.2	15.1	9.6	8.6	2.4	2.1	15.0	14.7
KNR Constructions	17.6	14.6	10.6	9.0	3.0	2.5	18.8	18.8

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, 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 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 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 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 10 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

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

Sharekhan

by BNP PARIBAS

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