20 November 2021

PNC Infratech

Rating: Buy
Target Price: Rs.389
Share Price: Rs.304

OB needs augmentation; valuation comforting; raising to a Buy

The continuing good pace of execution with no orders since Jan'21 mean PNC's revenue assurance is now ordinary. Citing sound prospect pipeline, and as it expects competition to moderate (with the benefits of diluted PQs/other relaxations announced under the AtmaNirbhar Bharat Scheme set to lapse on 31st Dec'21), management is sanguine of adding orders in time to keep growth going beyond the foreseeable future. The balance sheet is sturdy, and with Ghaziabad-Aligarh monetisation nearing fruition, it has potential to be sturdier. On the proven execution abilities, a well-set BS and the potential, we raise our rating to a Buy with a higher TP of Rs389 (on rolling forward to FY24).

Assurance ordinary. Q2 was devoid of any orders, but the firm OB, on including UP drinking water-supply orders, rose ~Rs11bn q/q to ~Rs132bn. With no orders for over nine months now, and as the pace of execution has held well, revenue assurance is now ordinary (~2.3x); the OB, thus, needs to be attended to at the earliest. Citing a healthy prospect pipeline, aiming to benefit from the general surge in awarding in H2 and expected moderation in competition, management looks to add orders of ~Rs80bn in FY22.

Net cash status held. The q/q lengthened receivables cycle and lower mobilisation advances pulled down the net cash balance ~Rs1.3bn q/q to ~Rs1.7bn. Nevertheless, the balance sheet is still in shape to deliver growth in the short to medium term. Post-Q2 recoveries of ~Rs3bn also augur well.

Asset-monetisation progressing. With change-in-ownership approval secured, the Ghaziabad-Aligarh monetisation is in the final leg of consummation. The two NoCs (COD, de-scoping) remain, and management looks to have them at the earliest. Five hybrid annuities and a BOT-annuity are on the block, and suitors are in the fray. The InvIT option, too, is on the table.

Valuation. On a mix of tweaked revenue estimates (to account for the Q2 execution, delayed inflows) and higher margins, earnings are ~2% higher in FY22, but lower ~1% in FY23. On the newly introduced FY24e, the stock is available (excl. investments) at a PER of 11x FY24e. **Risk.** Delayed inflows.

Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rs m)	48,779	49,254	59,511	69,640	78,705
Net profit (Rs m)	4,603	3,619	4,788	5,734	6,327
EPS (Rs)	17.9	14.1	18.7	22.4	24.7
Growth (%)	41.7	-21.4	32.3	19.8	10.3
P/E (x)	5.2	18.3	16.3	13.6	12.3
EV / EBITDA (x)	2.5	9.1	9.0	7.9	7.1
P/BV (x)	0.9	2.3	2.3	2.0	1.7
RoE (%)	19.7	13.3	15.2	15.7	15.0
RoCE (%)	28.6	21.1	21.8	21.8	20.9
Net debt / equity (x)	-0.2	-0.2	-0.1	-0.1	-0.1

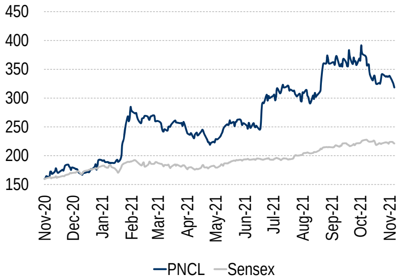
Source: Company, Anand Rathi Research

Key data	PNCL IN / PNCI.BO
52-week high / low	Rs396 / 157
Sensex / Nifty	59636 / 17765
3-m average volume	$3.1m
Market cap	Rs78bn / $1048.8m
Shares outstanding	257m

Shareholding pattern (%)	Sep-21	Jun-21	Mar-21
Promoters	56.1	56.1	56.1
- of which, Pledged	-	-	-
Free float	43.9	43.9	43.9
- Foreign institutions	11.6	9.3	10.8
- Domestic institutions	28.3	29.2	27.7
- Public	4.0	5.4	5.4

Estimates revision (%)	FY22e	FY23e
Sales	0.5	-1.3
EBITDA	2.1	-1.1
EPS (Rs)	1.7	-0.9

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

Meet Parikh
Research Associate

Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Order backlog	86,290	164,515	191,527	215,087	234,516
Order inflow	11,857	127,467	86,393	93,200	98,134
Net revenues	48,779	49,254	59,511	69,640	78,705
Growth (%)	57.5	1.0	20.8	17.0	13.0
Direct costs	37,819	39,470	47,686	56,039	63,502
SG&A	3,317	3,057	3,591	4,170	4,690
EBITDA	7,643	6,728	8,234	9,431	10,512
EBITDA margins (%)	15.7	13.7	13.8	13.5	13.4
Depreciation	1,264	1,124	1,329	1,475	1,667
Other income	885	752	654	577	542
Interest expenses	1,144	771	863	870	931
PBT	6,120	5,585	6,696	7,663	8,455
Effective tax rate (%)	24.8	35.2	28.5	25.2	25.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	4,603	3,619	4,788	5,734	6,327
Adjusted income	4,603	3,619	4,788	5,734	6,327
WANS	257	257	257	257	257
FDEPS (Rs / sh)	17.9	14.1	18.7	22.4	24.7

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	513	513	513	513	513
Net worth	25,466	29,085	33,744	39,222	45,293
Debt	3,266	3,992	2,945	2,693	3,057
Minority interest	-	-	-	-	-
DTL / (Assets)	-1,215	-225	-225	-225	-225
Capital employed	27,517	32,852	36,464	41,690	48,124
Net tangible assets	5,865	6,535	6,311	6,500	6,711
Net intangible assets	16	22	14	12	10
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	-	34	-	-	-
Investments (strategic)	6,732	7,465	10,965	14,155	17,655
Investments (financial)	623	1,005	-	-	-
Current assets (ex cash)	22,252	25,600	31,947	37,637	42,030
Cash	7,401	7,683	6,802	5,748	6,542
Current liabilities	15,371	15,492	19,576	22,363	24,823
Working capital	6,881	10,108	12,371	15,275	17,207
Capital deployed	27,517	32,852	36,464	41,690	48,124
Contingent liabilities	27,283	24,153	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT + Net interest expense	6,379	5,604	6,904	7,956	8,845
+ Non-cash items	1,264	1,124	1,329	1,475	1,667
Oper. prof. before WC	7,643	6,728	8,234	9,431	10,512
- Incr. / (decr.) in WC	-1,303	3,227	2,263	2,904	1,932
Others incl. taxes	1,612	1,998	1,908	1,929	2,128
Operating cash-flow	7,335	1,503	4,062	4,599	6,452
- Capex (tang. + intang.)	927	1,835	1,063	1,663	1,875
Free cash-flow	6,408	-332	2,999	2,937	4,577
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	309	-	128	257	257
+ Equity raised	-	-	-	-	-
+ Debt raised	-23	1,716	-1,048	-252	364
- Fin investments	1,625	1,115	2,495	3,190	3,500
- Net interest expense + misc.	145	-13	208	293	390
Net cash-flow	4,306	282	-880	-1,055	795

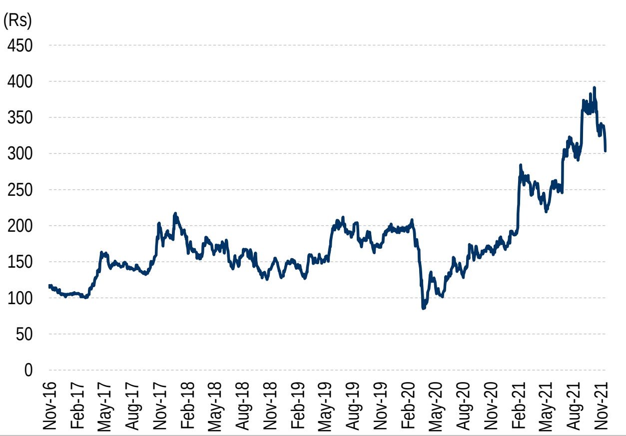
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	5.2	18.3	16.3	13.6	12.3
EV / EBITDA (x)	2.5	9.1	9.0	7.9	7.1
EV / Sales (x)	0.4	1.2	1.2	1.1	0.9
P/B (x)	0.9	2.3	2.3	2.0	1.7
RoE (%)	19.7	13.3	15.2	15.7	15.0
RoCE (%)	28.6	21.1	21.8	21.8	20.9
RoIC (%)	27.1	18.2	19.7	19.5	18.1
DPS (Rs / sh)	1.0	-	0.4	0.8	0.8
Dividend yield (%)	0.3	-	0.1	0.3	0.3
Dividend payout (%) - incl. DDT	6.7	-	2.7	4.5	4.1
Net debt / equity (x)	-0.2	-0.2	-0.1	-0.1	-0.1
Receivables (days)	60	62	70	75	75
Inventory (days)	20	26	31	31	31
Payables (days)	35	53	46	46	46
CFO : PAT%	159.4	41.5	84.8	80.2	102.0

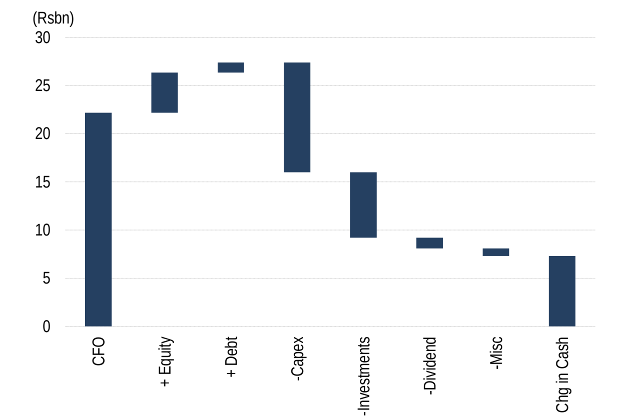
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Cumulative capital allocation, FY13-21



Source: Company

Results, Concall highlights

- **Inspiring pace of execution.** Q2 revenue from operations were ~53% higher y/y, ~29% q/q, to ~Rs16.2bn. Though a part of the growth could be attributed to the Covid first-wave-impacted base from Q2 FY21, and the second-wave disrupted Q1 FY22, the performance is still inspiring.
  - The healthy pace of execution in general, and at Mumbai-Nagpur as well as Aligarh-Kanpur–V in particular, hold the key to the inspiring Q2 revenue from operations. The two Puravanchal Expressway packages and Nagina-Kashipur also appear to be among the top-five contributors.
  - The continuing healthy pace of execution at its road OB and the gradual commencement of construction/stabilising pace of execution at the non-road OB would bolster the performance.
  - Notwithstanding the strong Q2, management, talking of the protracted monsoon-impacted Q3 pace of execution, mostly retained its FY22 revenue guidance at 20-25%.
- **EBITDA margin holds the fort.** The ~13.7% margin was ~23bps better y/y, and q/q contracted only ~30bps. The Q1 margin performance was largely boosted by the gross margin, aided by a favourable project mix and the effectively managed commodity price pressures (helped by escalation clauses).
  - Management highlights that its entire OB has price-variation/escalation clauses in place, and thus it does not see any meaningful variability in its margin performance.
  - Ahead, it expects margins of 13.5-13.75%, slightly lowered from the earlier guided-to 13.5-14%.

Fig 7 – Financial highlights

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	% Y/Y	% Q/Q
Revenue from operations	9,053	10,535	13,224	16,443	12,512	16,150	53.3	29.1
EBITDA	1,198	1,421	1,785	2,324	1,754	2,216	56.0	26.3
EBITDA margins (%)	*13.2*	*13.5*	*13.5*	*14.1*	*14.0*	*13.7*	*23bps*	*-30bps*
Interest	253	218	153	148	180	243	11.5	34.7
Depreciation	270	272	282	300	315	328	20.5	4.1
Other income	191	148	243	171	178	174	17.7	-1.9
PBT	866	1,079	1,594	2,047	1,437	1,820	68.7	26.6
Tax	265	386	562	753	504	466	20.7	-7.5
PAT	601	693	1,032	1,294	933	1,354	95.4	45.1
EPS (Rs)	2.3	2.7	4.0	5.0	3.6	5.3	95.4	45.1

Source: Company

- **Strong earnings performance.** The strong, ~56% y/y, growth in absolute EBITDA helped Q2 earnings rise ~95% y/y to ~Rs1.4bn. Sequentially, earnings rose ~45%, largely aided by the ~26% higher operating profitability.
  - Besides operating profitability, earnings growth was also boosted by the capped rise in depreciation (true y/y and q/q; on contained capex) and in finance costs (true y/y). The lower effective tax rate (true y/y and q/q) too was responsible for the inspiring earnings growth.

BOT operations

- The Q2 FY22 gross toll collection was up ~5% y/y, ~4% q/q, to ~Rs2.05bn on the mostly-receded impact of the Covid'19 (first and second waves).
  - Though collections at two of its five BOT-toll assets grew in double digits y/y, the blended growth was largely dictated by the two largest contributors, Kanpur-Ayodhya and Ghaziabad-Aligarh.
  - Generally a weak quarter sequentially (owing to the monsoon), Q2 FY22 contrasted favourably with Q1 FY22, which was Covid'19 second-wave impacted.

Fig 8 – BOT toll income*

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	% Y/Y	% Q/Q
Gwalior-Bhind	83	129	133	134	106	115	*-11.1*	*8.5*
Kanpur-Ayodhya	723	1,020	1,241	1,140	1,010	1,050	*2.9*	*4.0*
Kanpur-Kabrai	196	173	250	296	240	220	*27.2*	*-8.3*
Bareily-Almora	78	107	140	135	109	123	*14.8*	*12.8*
Ghaziabad-Aligarh	276	513	629	594	503	537	*4.7*	*6.8*
Total	1,356	1,943	2,393	2,299	1,968	2,045	***5.3***	***3.9***

Source: Company ** Excluding two operational BOT-Annuity assets and operational hybrid annuity*

- Notwithstanding the y/y and q/q higher gross toll collection, and more operational hybrid annuities, the reported ~Rs2bn BOT-toll/annuity revenue was down ~7% y/y, ~3% q/q. This, we believe, would have been due to lower revenue under the service-concession agreements from the under-construction hybrid annuities. The segment margin, at ~50%, contracted ~744bps y/y, ~636bps q/q.

Fig 9 – Consolidated financials – Segment highlights

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	% Y/Y	% Q/Q
Segment revenues								
Contract	9,053	10,288	13,200	16,141	12,525	15,940	54.9	27.3
Toll / Annuity	1,875	2,197	2,550	2,502	2,100	2,037	-7.3	-3.0
Total	10,928	12,485	15,749	18,643	14,625	17,977	44.0	22.9
Segment margins (%)								
Contract	10.2	8.3	11.5	10.7	11.6	10.5	-	-
Toll / Annuity	63.7	57.7	57.7	63.7	56.6	50.2	-	-
Blended	22.2	18.8	21.2	19.0	19.6	16.5	-	-

Source: Company

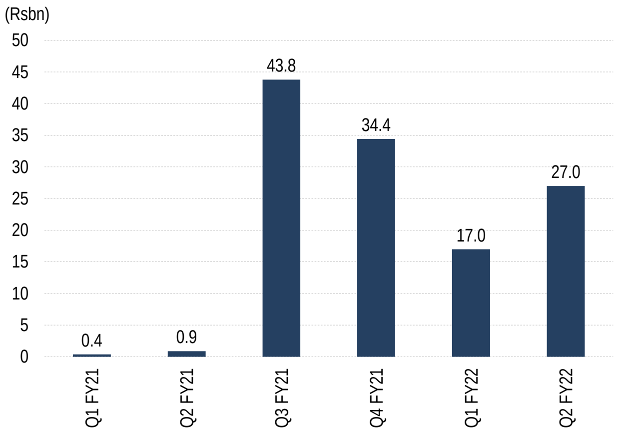
  - The reported BOT-toll/annuity segment includes financials for the two annuity assets, three BOT-toll, one OMT and four operational hybrid annuity assets, but excludes the minority-owned Ghaziabad-Aligarh. Financials also include revenues booked under service-concession agreements for the under-construction hybrid annuties.

Inflows / order backlog

- Keener competition owing to diluted qualifications, bid security and other norms (under the AtmaNirbhar Bharat Scheme) meant the company missed out on orders for the second straight quarter. Nevertheless, drinking water-supply orders were included in the OB during the quarter.

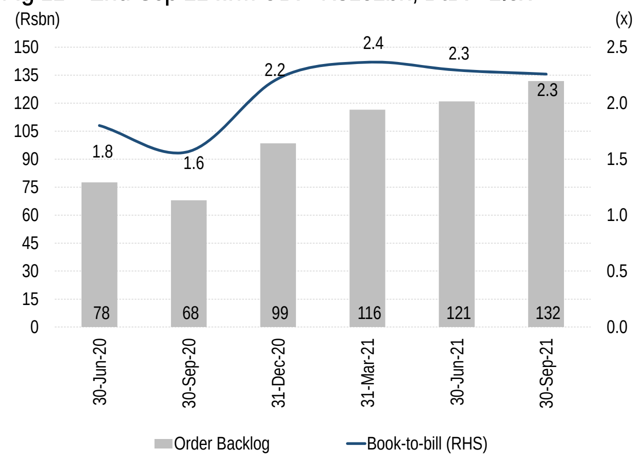
- On the inclusion of the EPC potential from the drinking water-supply orders in Uttar Pradesh, the end-Q2 FY22 firm OB was up ~Rs10.8bn sequentially (net of the quarter's execution) to ~Rs131.8bn. This implied a book-to-bill of ~2.3x TTM construction revenues, the same as a quarter ago.
  - The end-Q2 OB is good to deliver in the immediate future, but the company would need more at the earliest to sustain the growth beyond the foreseeable future.
  - The end-Q2 OB is still not moving entirely as ~Rs34bn (JV projects; PNC's share at 95%) of drinking water-supply orders in Uttar Pradesh have yet to start contributing, and work at an irrigation order (of ~Rs10bn) in Andhra Pradesh has been temporarily halted.
  - Management expects the AP irrigation order to start moving in Jan'22, and ~Rs10bn of the UP drinking-water-supply orders to turn contributing by end-FY22.

Fig 10 – No new orders in H1; FY22 target: ~Rs80bn



Source: Company Note: Including change in scope of works, and basis incl. in firm OB

Fig 11 – End-Sep'21 firm OB: ~Rs132bn, BtB: ~2.3x



Source: Company

- Buoyed by the healthy bid prospects and the government's continued focus on infrastructure spending to boost the overall economy, and as the qualification norms and other bid conditions revert to normal (likely by Dec'21), management expects to add orders in time to keep growth going. Its focus would be firmly on the roads sector for the foreseeable future. It expects to add orders in the airports sector as well.
- Given this, it targets FY22 order additions at ~Rs80bn. It expects a fair mix of EPC and hybrid annuities (50:50). It expects the airports segment to comprise ~10% of the targeted additions. For this, its eyes are set on road and highway projects, mainly from the NHAI.
  - To this effect, it has its mind on immediate opportunities of ~Rs92bn. It highlights, this is a 70:30 split between hybrid annuities and EPC.
  - Besides, it has identified NHAI projects of ~Rs250bn on offer. These are likely to come up for bidding in another 2-3 months.
  - It is evaluating a number of state opportunities, and many states are coming up with expressways, but bids for them have yet to be floated.
  - On the Ganga Expressway in Uttar Pradesh, management is not yet clear regarding bidding. Earlier, it said the decision to bid for the

project would be taken based on the final modalities. The bid dates for this project have yet again been extended.

- In drinking water-supply, management is keenly viewing some opportunities in Uttar Pradesh, but the final decision to bid or not is not yet firm. We believe the decision to bid for any further opportunities in this segment would take note of the progress at the current set of irrigation and water-supply orders. The present share of irrigation and water-supply orders is pegged at ~28%, and management intends to maintain the share at 20-25% in FY23 and FY24.

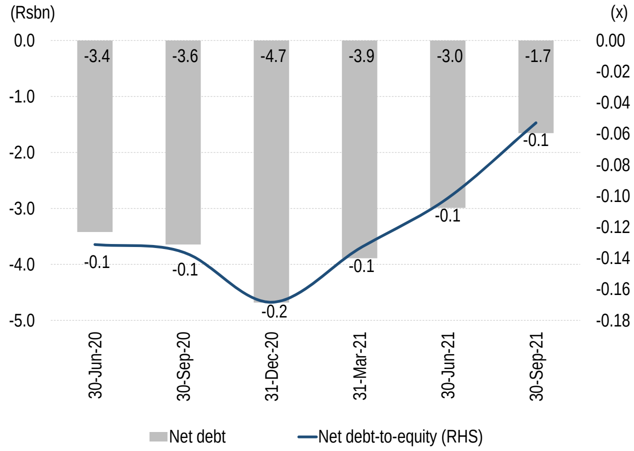
Update on hybrid annuity projects

- Of PNC's hybrid annuity portfolio of eleven projects, it has received COD for one and PCOD for three; the other seven are at various stages of construction. Of these eleven, discussions can take place under two broad heads:
  - **Completed projects.** With PCOD for three in Jun'21, four from the portfolio of eleven are now operational, and have turned yielding.
  - **Under-construction projects.** Of the seven hybrid annuity projects being constructed, the Jhansi-Khajuraho Package-II and Chakeri-Allahbad are already at advanced stages. The other five received appointed dates of from Jan'21 to May'21, and work is going well. Unnao-Lalganj, with 19th May'21 as the appointed date, was the last to be appointed.
- With four of the eleven assets already operational, and two more due to turn contributing sooner than later, a gradual commissioning renders these assets lucrative to prospective buyers. Thus, monetisation efforts have already started gaining pace.
- The equity required for all the eleven hybrid annuity assets is pegged at ~Rs14.68bn.
  - For its older seven hybrid annuities, SPVs require equity of ~Rs8.48bn. Of this, the company has infused ~Rs6.3bn, incl. ~Rs0.42bn in Q2 (~Rs0.65bn in H1).
  - The equity infusion required for the newer four assets are ~Rs6.2bn. Of this, the company has cumulatively infused ~Rs0.35bn (no infusion in H1).
- Of the balance estimated ~Rs8bn, it looks to infuse~Rs2.8bn during the rest of FY22 and ~Rs3.2bn in FY23, with the balance thereafter. This is subject to the progress in construction.

Balance sheet

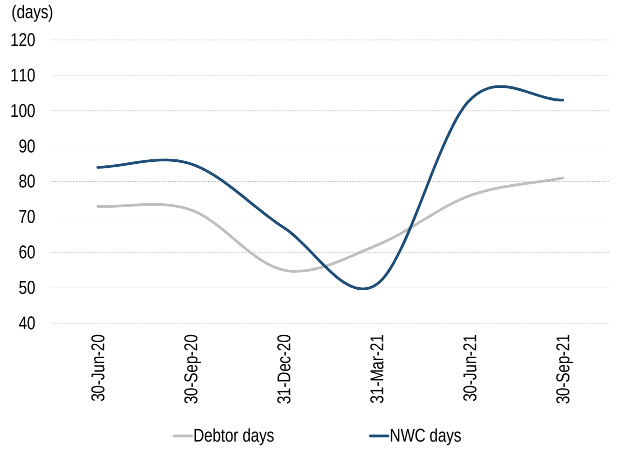
- A q/q lengthened receivables cycle, lower mobilisation advances and the decision to support its vendors pulled down the net cash balance ~Rs1.3bn q/q to ~Rs1.7bn. Nevertheless, the balance sheet is still in shape to deliver growth in the short to medium term.
  - During the quarter, the receivables cycle was five days longer, at 81. This is the single largest contributor to the lower net cash balance. Management highlights that this is partly explained by the deliberately delayed drawdown of SPV level debt, and utilisation of standalone cash & equivalents to fund the construction (to improve IRR).

Fig 12– End-Sep'21 net cash: ~Rs1.7bn



Source: Company

Fig 13 – Receivable cycle lengthened, but NWC flat q/q



Source: Company

- During the quarter, the receivables cycle was five days longer, at 81. This is the single largest contributor to the lower net cash balance. Management highlights that this is partly explained by the deliberately delayed drawdown of SPV level debt, and utilisation of standalone cash & equivalents to fund the construction (to improve IRR).
- Mobilisation advances were down ~Rs0.9bn q/q to ~Rs4.95bn (on account of settlements against bills raised), and of payables (notwithstanding the greater scale) being down ~Rs133m to ~Rs5.2bn.
- The standalone gross debt was down ~Rs0.6bn q/q to ~Rs3.35bn. But the decline in cash & equivalents was steeper at ~Rs1.98bn q/q, to ~Rs5.1bn, as management decided to utilise book-cash to fund project execution.
- The end-Sep'21 gross debt was entirely for equipment finance. There were no loans for working capital

- Notwithstanding the q/q lengthened receivables cycle, the favourable movement in some of the other key constituents of the working capital helped to a q/q flat overall working-capital cycle (at 103 days at 30th Sep'21).
  - Subsequent to the quarter, however, the working-capital cycle has been pruned, as ~Rs3bn of trade receivables were realised in Oct'21 (originally due in Sep'21).
- On 30th Sep'21, debt at SPVs (incl. Ghaziabad-Aligarh, ineligible for consolidation) was ~Rs47.3bn, a ~Rs0.9bn net rise q/q on the fresh draw-downs by the SPVs for hybrid annuities (to carry out construction), but partly restricted on repayments by operational BOT-toll/annuity SPVs.
  - Debt for its operational BOT-toll/annuity assets contracted ~Rs1.1bn q/q to ~Rs17.1bn, though for its hybrid annuity assets with COD/PCOD rose ~Rs1.6bn q/q (drawdowns upon COD, net of repayments) to ~Rs19.5bn. The debt for the hybrid annuities being constructed rose ~Rs0.45bn q/q to ~Rs10.65bn.

Guidance

- Though no orders have been bagged this financial year (to date), management retained its FY22 order-addition guidance of ~Rs80bn. The already placed bids and a healthy prospect pipeline keep it sanguine about its targeted additions. Management expects airports to account for ~10% of the targeted additions, and to evaluate water-supply/irrigation orders based on the progress at the existing set of orders.

- With the strong Q2, revenue growth was slightly firmed up from the earlier guidance of ~20%, to 20-25%. The guidance takes into account the prolonged monsoon, and its impact on the Q3 FY22 pace of execution.
- On the core construction EBITDA margins, management maintained its guidance of ~13.5–13.75%. On the recent commodity price rise cutting into margins, it said that all its projects have escalation clauses in place, which would help alleviate the pressure.
- The FY22 capex guidance too was mostly retained, at Rs1bn-1.2bn. Of this, the company has incurred capex of ~Rs0.15bn in H1.

Other highlights

- **Ghaziabad-Aligarh monetisation.** With the recent receipt of approval for change-in-ownership and lenders NoCs received earlier, the company is a step closer to close this transaction with Cube Highways. The pending NoCs include approvals for COD and de-scoping, and these two would pave the way for it to transfer the asset, and realise monies. Though the efforts seem to be reaching fruition, management is still silent on the envisaged equity consideration. This is because the equity consideration would depend on settlement of claims for revenue shortfalls, as well as certain other conditions.
  - Though two NOCs remain, management hopes of consummation in FY22 itself.
  - With it hopeful of realising claims from the NHAI toward the revenue loss in this project, management does not see any write-downs to the exposure.
- **Asset monetisation efforts for other assets.** Monetisation efforts are under way for other assets as well (BOT-Annuity and operational hybrid annuity projects), and have been making gradual progress.
  - Management said it has received offers from a couple of prospective buyers for projects with ~Rs6.8bn equity infused. These include five hybrid annuities and an operational BOT-annuity asset.
  - Though the offers are already in place for these five, management highlights that the InvIT option too is being considered for the five on the block now, and the future assets.
- **Status on drinking water-supply, irrigation orders.** Currently, only a drinking water-supply order in Uttar Pradesh is moving. Management expects others to turn contributing shortly. The status is as follows:
  - Of the Uttar Pradesh drinking water-supply orders of ~Rs37bn (PNC's share: ~95% of the total), work is gradually progressing at the smallest one of ~Rs2.9bn (125 villages). On the two larger jobs comprising 3,427 villages, work has yet to begin. Tripartite agreements for the 233 DPRs/villages with EPC potential of ~Rs4bn have already been completed, and DPRs are at various stages for the balance. Management expects the orders of ~Rs10bn to be under execution by the year end. It does not see the ensuing

UP state elections to have any bearing as these are critical projects with joint funding from the state and Centre.

- Though it had commenced work at its ~Rs10bn irrigation order in Andhra Pradesh, work is currently on hold due to release of water from the Srisailam reservoir into the canal system. Management says the state government remains committed to the project with efforts underway to garner funds or provide budgetary allocation to complete this project before the 2024 assembly elections. Management expects the work to resume in Jan'22.

- **Uttar Pradesh water-supply opportunity.** In phase-I, the government earlier gave out works of ~Rs10bn, mostly in dry regions. In phase-II, which is underway with 34,000 villages, the potential is estimated at ~Rs50bn. Management sees the government to come out with works of another ~30,000 villages in phase-III, and the balance works would be carried out in phase-IV. Management pegs the cumulative opportunity spread over 98,000 villages and 62,000 *gram sabha*s at ~Rs1trn.

- **Keener competition in bidding for projects**. Management said that on account of lower PQ requirements by MoRTH and NHAI, and as other conditions were relaxed, competition has intensified. However, with the PQ requirement likely to be restored (likely to last up to Dec'21), and as other conditions return to the pre-Covid levels, management expects competition to ease.

- **Early-completion bonuses.** Four months ahead of the scheduled completion, the Puravanchal package-V becomes eligible for an early-completion bonus. Management expects it to be recognised in Q4 FY22 (post-completion of some processes). Mumbai-Nagpur too would be eligible for an early-completion bonus, but this is unlikely before Q1 FY23. The early completion bonus for the Aligarh-Moradabad is expected by end-FY22.

Earnings revision, Valuation

Our revenue estimates take into account the stronger-than-anticipated Q2 and the longer-than-expected wait for new orders. Consequently, FY22e revenue is ~0.5% higher, while FY23e is down ~1.3%. Margin estimates, though, have been firmed up to reflect the H1 performance, and consequently the ability to deal with input price pressures. FY22e earnings, are, thus, ~2% higher, but ~1% lower for FY23e.

We introduce FY24e with ~Rs78.7bn revenue, ~Rs10.5bn EBITDA, ~Rs6.3bn net profit. This contrasts well with FY23's ~Rs69.6bn, ~Rs9.4bn and ~Rs5.7bn.

We roll forward our valuation to FY24e. We value the core construction business at a 13x PE multiple for FY24 (lowered from 14x FY23e). The exposure to asset-ownership has been valued using a mix of DCF and an equity-invested approach for hybrid annuities. Resultantly, the construction business is valued at Rs321 a share (up from Rs304) and asset ownership at Rs68 (up from Rs55 earlier). The per-share target price works out to Rs389 (up from Rs360 earlier).

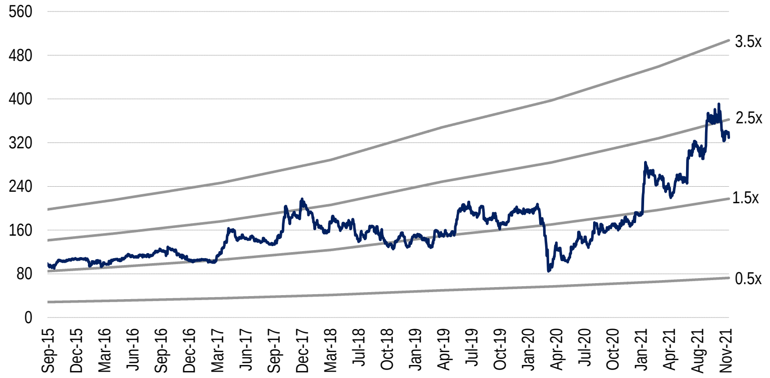
Fig 14 – Estimates revision

(Rs m)	Old estimates		Revised estimates		Change (%)	
	FY22	FY23	FY22	FY23	FY22	FY23
Revenue	59,196	70,532	59,511	69,640	*0.5*	*-1.3*
EBITDA	8,067	9,536	8,234	9,431	*2.1*	*-1.1*
EPS (Rs)	18.3	22.5	18.7	22.4	*1.7*	*-0.9*

Source: Anand Rathi Research

At the ruling price, the stock (excl. investments) quotes at PERs of 14.4x FY22e, 12x FY23e and 10.9x FY24e. On P/BV, it trades at 2.3x FY22e, 2x FY23e and 1.7x FY24e, against our target-price-implied exit P/BV of 2.2x FY24e.

Fig 15 – PBV band



Source: Bloomberg, Anand Rathi Research

Risks

- Significant delay in orders won
- Failure to exercise financial prudence.

Appendix

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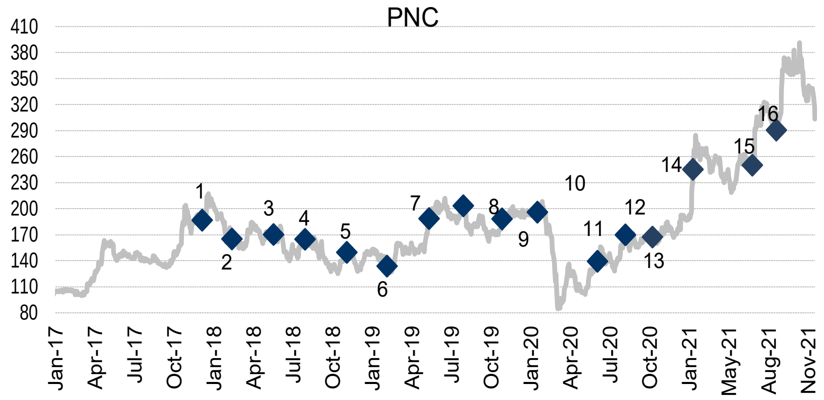

	Date	Rating	TP (Rs)	Share Price (Rs)
1	11-Dec-17	Buy	237	188
2	19-Feb-18	Buy	211	168
3	28-May-18	Buy	219	169
4	10-Aug-18	Buy	213	164
5	17-Nov-18	Buy	194	150
6	18-Feb-19	Buy	199	137
7	28-May-19	Buy	250	187
8	16-Aug-19	Buy	252	204
9	15-Nov-19	Buy	256	188
10	6-Feb-20	Buy	277	196
11	27-Jun-20	Buy	202	139
12	31-Aug-20	Buy	205	169
13	4-Nov-20	Buy	210	169
14	6-Feb-21	Buy	311	245
15	29-Jun-21	Buy	323	246
16	15-Aug-21	Hold	360	308

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Ratings Guide (12 months)	Buy	Hold	Sell
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