Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

PNC Infratech Ltd

Strong Q1; growth prospects bright

Infrastructure		Sharekhan code: PNCINFRA		
Reco/View: Buy	↔	CMP: **Rs. 259**	Price Target: **Rs. 323**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 43.65

Updated July 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

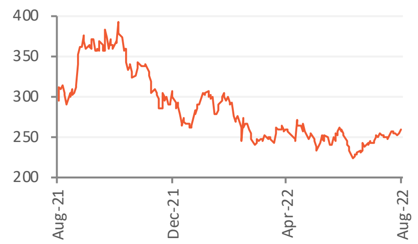
Company details

Market cap:	Rs. 6,644 cr
52-week high/low:	Rs. 396/219
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	10.5
DII	28.6
Others	4.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.2	9.2	-10.9	-11.9
Relative to Sensex	-0.9	0.4	-12.0	-19.8

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on PNC Infratech Limited (PNC) with an unchanged PT of Rs. 323, considering its strong growth potential over the next two years.
- Standalone execution, OPM and net earnings continued to outperform in Q1FY23. Order backlog of over Rs. 20,000 crore, 3x TTM standalone revenues, remained strong.
- Management retained a 15% y-o-y standalone revenue growth, 13.5% OPM and Rs. 8000-10000 crore of order intake for FY2023.
- Management is continuing its discussions on divestments and expects a closure by FY2023-end.

PNC Infratech Limited (PNC) reported better-than-expected standalone revenues (up 40.5% y-o-y to Rs. 1758 crore) for Q1FY2023, including a Rs. 37 crore early completion bonus. Further, OPM beat estimates at 14.7% (rising by 64 bps y-o-y). Adjusted OPM stood at 13.5% (adjusted for Rs. 37 crore early completion bonus and lower margin OMT project which contributed Rs. 104 crore during Q1). Strong execution percolated to bottomline leading to 78.5% y-o-y growth in standalone net profit at Rs. 166.5 crore (much higher than estimates). Its current order book at Rs. 20,446 crore (3x TTM standalone revenues) remain strong while it targets Rs. 8,000-10,000 crore order intake for FY2023. The company maintained standalone revenue growth guidance of 15% y-o-y and an OPM of 13.5% in FY2023. On the asset monetisation front, the company is in discussion with potential investors and expects to conclude the same by FY2023-end.

Key positives

- Execution remained strong with 40.5% y-o-y rise in standalone revenues for Q1FY2023.
- OPM adjusted for early completion bonus and low margin OMT business stood at 13.5%.

Key negatives

- Execution of water & irrigation projects remained slow.
- Asset monetisation remained under discussions and is likely to be concluded by FY2023-end.

Management Commentary

- NHAI bid pipeline stands at 50 projects totalling Rs. 50,000 crore (EPC – Rs. 30000 crore, HAM – Rs. 20,000 crore) for which bids submission is up to September 30, 2022.
- The company has invested Rs. 2,390 crore of equity in hybrid annuity model (HAM) projects till date and balance equity requirement is Rs. 1029 crore. During Q1FY2023, it infused equity of Rs. 114 crore and equity infusion during 9MFY2023 will be Rs. 330 crore, FY2024 – Rs. 480 crore and FY2025 – Rs. 350 crore.
- The toll revenues during Q1FY2023 stood at Rs. 222 crore, which was up 16% y-o-y.
- The *Jal Jeevan Mission* (JJM) projects, for which DPRs are approved, aggregate to Rs. 1700 crore (including phase I of Rs. 250 crore), out of which it has executed Rs. 400 crore projects. PNC targets to execute Rs. 1200-1500 crore JJM projects during FY2023.

Revision in estimates – We have fine-tuned our estimates for FY2023-FY2024.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 323: PNC continues to outperform on the execution front while maintaining healthy OPMs. It continues to have a strong order book with expected healthy order intake going ahead. Standalone balance sheet remains in net cash positive, while consolidated net debt is comfortable. It continues to look for asset monetization which would considerably free up equity and lower consolidated debt. It 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. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 323, considering its strong growth potential over the next two years.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,925.4	6,305.5	7,232.7	7,869.2
OPM (%)	13.7	12.5	13.2	13.2
Adjusted PAT	361.9	447.8	535.2	589.4
% YoY growth	3.5	23.7	19.5	10.1
Adjusted EPS (Rs.)	14.1	17.5	20.9	23.0
P/E (x)	18.4	14.8	12.4	11.3
P/B (x)	2.2	2.0	1.7	1.5
EV/EBIDTA (x)	9.8	8.4	6.9	6.4
RoNW (%)	13.3	14.3	14.9	14.2
RoCE (%)	13.9	15.1	15.3	14.6

Source: Company; Sharekhan estimates

Strong performance across parameters

PNC reported 40.5% y-o-y growth in standalone net revenues at Rs. 1,758 crore for Q1FY2023 which was 21% higher than our estimate. Revenues included a Rs. 37 crore bonus received for early completion of project. Standalone OPM at 14.7% (+64bps y-o-y) was higher than our estimate of 12%. Hence, operating profit grew by 46.9% y-o-y to Rs. 258 crore (48% higher than our estimate). Strong operational performance along with lower depreciation (down 14.5% y-o-y) and a lower effective tax rate (24.6% vs 35.1% in Q1FY2022) led to 78.5% growth in standalone net profit at Rs. 167 crore which was 57% higher than our estimate.

FY2023 guidance retained

PNC retained 15% y-o-y standalone revenue growth and 13.5% OPM guidance for FY23. The revenue mix for FY23 is expected to be as follows Roads & HAM projects – 80% and Water & Irrigation projects 20%. It retained Rs. 8000-10000 crore order inflows for FY23. During Q1FY23, it had bided for two EPC projects totalling Rs. 1000 crore for which bids are yet to open. The Jal Jeevan Mission projects for which DPRs are approved, aggregating to Rs. 1700 crore (including phase I worth Rs. 250 crore), out of which it has executed Rs. 400 crore projects. It targets to execute Rs. 1200-1500 crore JJM projects during FY2023. In its Rs. 1000 crore Andhra Pradesh canal project, it has done work of Rs. 150 crore till date with balance Rs. 850 crore to be executed. It would start project in January 2023 and expects to execute Rs. 150-200 crore work in FY2023.

Key Conference call takeaways

- **Guidance:** The company retained a 15% y-o-y standalone revenue growth and 13.5% OPM guidance for FY23. The revenue mix for FY23 is expected to be as follows Roads & HAM projects – 80% and Water & Irrigation projects 20%. It retained Rs. 8,000-10,000 crore order inflows for FY23. During Q1, it had bided for two EPC projects totalling Rs. 1000 crore for which bids are yet to open.
- **Sector outlook:** NHAI bid pipeline stands at 50 projects totalling Rs. 50,000 crore (EPC – Rs. 30000 crore, HAM – Rs. 20,000 crore) for which bids submission is up to September 30, 2022. The MORTH and NHAI would be reducing upfront payment in HAM projects from 40% to 20% for which the company is comfortably placed in increasing their contribution in projects. Expiry of various concessions given to road developers by NHAI is resulting in moderate competitive intensity.
- **Equity requirement:** The company has invested Rs. 2,390 crore equity in HAM projects till date and balance equity requirement is Rs. 1029 crore. During Q1FY2023, it infused an equity of Rs. 114 crore and equity infusion during 9MFY2023 will be Rs. 330 crore, FY2024 – Rs. 480 crore and FY2025 – Rs. 350 crore.
- **Capex:** During Q1FY2023, capex was negligible. In FY2023, the capex is estimated at Rs. 100-120 crore.
- **Q1FY23 OPM:** The OPM for Q1FY2023 is 13.5% excluding Rs. 37 crore early completion bonus and Rs. 104 crore Eastern Peripheral OMT revenues (2% OPM).
- ***Jal Jeevan Mission:*** The JJM projects bagged by the company in three phases - Phase I of Rs. 250 crore, Phase II Rs. 3500 crore and Phase III Rs. 1500 crore. The projects for which DPRs are approved aggregates to Rs. 1700 crore (including phase I of Rs. 250 crore), out of which it has executed Rs. 400 crore of projects. It targets to execute Rs. 1200-1500 crore JJM projects during FY2023. Out of Rs. 400 crore worth of execution, PNC has booked Rs. 250 crore (Rs. 108 crore in FY2022) while Rs. 150 crore revenues would be booked in August 2022. It expects DPRs totalling Rs. 1000 crore to be approved before end of calendar year.
- **AP canal project:** Out of Rs. 1,000 crore Andhra Pradesh canal project, PNC has done work of Rs. 150 crore till date with balance Rs. 850 crore to be executed. It would start project in January 2023 and expects to execute Rs. 150-200 crore work in FY2023.

- **Toll revenues:** During Q1FY2023, toll revenues stood at Rs. 222 crore, which was up 16% y-o-y.
- **Asset monetisation:** The company is under discussion with interested parties to divest road portfolio of 6 HAM, 1 Annuity and 1 BOT project having total debt of Rs. 4700 crore and equity of Rs. 940 crore. It expects asset monetisation by FY2023 end.
- **Order book:** The company's current order book is over Rs. 20,000 crore including seven recently bagged HAM projects having EPC order book of Rs. 7439 crore. Roads projects comprise 61% of order book, while water & irrigation projects form the balance 39%. Executable order book for which it has received appointed dates is Rs. 13,000 crore.
- **Early completion bonus:** It is targeting to receive early completion bonus for two EPC projects viz. Delhi-Vadodara expressway - Package 29 and Package 31.
- **Debt:** Standalone debt stands at Rs. 300 crore, cash at Rs. 463 crore and net cash of Rs. 163 crore. The consolidated debt stands at Rs. 5,129 crore, cash at Rs. 1048 crore and net debt to equity of 1.19x.
- **Other balance sheet items:** Retention money stands at Rs. 189 crore, advances Rs. 496 crore, debtors Rs. 1163 crore (HAM – Rs. 793 crore, EPC – Rs. 369 crore), Inventory Rs. 626 crore and payables Rs. 462 crore.
- **Fund and non fund based limits:** The fund-based limit is Rs. 1000 crore (bill discounting of Rs. 100 crores done in June 2022) and non-fund based limit is Rs. 5000 crore (Rs. 2863 crore utilised).
- **New projects land status:** Of the seven HAM projects recently bagged, five projects has 80% 3D status and two projects have 60% 3G status.
- **Related party transaction:** The company is left to receive Rs. 30 crore from related party advance out of Rs. 60 crore which it expects to receive by FY2023-end.

Results (Standalone) **Rs cr**

Particulars	Q1FY2023	Q1FY2022	y-o-y%	Q4FY2022	q-o-q%
Net Revenue	**1758.1**	**1251.2**	**40.5%**	**1917.3**	**-8.3%**
Other income	7.5	17.8	-57.8%	8.5	-11.7%
Total income	1765.6	1268.9	39.1%	1925.8	-8.3%
Total expenses	1500.4	1075.7	39.5%	1692.6	-11.4%
Operating profit	**257.8**	**175.4**	**46.9%**	**224.7**	**14.7%**
Depreciation	26.9	31.5	-14.5%	32.1	-16.0%
Interest	17.5	18.0	-3.1%	17.0	2.8%
Profit Before Tax	**220.9**	**143.7**	**53.7%**	**184.1**	**20.0%**
Taxes	54.3	50.4	7.9%	45.9	18.3%
PAT	**166.5**	**93.3**	**78.5%**	**138.2**	**20.5%**
No of equity shares	25.7	25.7	0.0%	25.7	0.0%
EPS (Rs.)	**6.5**	**3.6**	**78.5%**	**5.4**	**20.5%**
OPM (%)	14.7%	14.0%	64 bps	11.7%	294 bps
NPM (%)	9.5%	7.5%	202 bps	7.2%	226 bps
Tax rate (%)	24.6%	35.1%	-1046 bps	24.9%	-34 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector View – Roads to remain one of key focus areas in the 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 are 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 seeing strong order inflows and an improvement in execution run-rate. Working capital issues of the companies have been handled by proactive payments from NHAI.

■ **Company Outlook – Expect healthy order intake to maintain revenue growth run-rate**

The company eyes a 15% y-o-y standalone revenue growth and 13.5% OPM for FY23. The revenue mix for FY23 is expected to be as follows – 1) **Roads & HAM projects –** Rs. 5500-6000 crore; 2) **Jal Jeevan Mission projects –** Rs. 1500 crore; 3) **New HAM projects –** Rs. 200-300 crore and 4) **Irrigation –** Rs. 200 crore. It is targeting Rs. 8000-10000 crore (including 10% related to Jal Jeevan Mission projects) order inflows for FY23. Current order book of the company stands at over Rs. 20,000 crore, which provides healthy revenue visibility over the next two years. On the asset monetisation front, the management would take a call in FY23 for six HAM, one annuity and one BOT project.

■ **Valuation – Retain Buy with an unchanged PT of Rs. 323**

PNC continues to outperform on the execution front while maintaining healthy OPMs. It continues to have a strong order book with expected healthy order intake going ahead. Standalone balance sheet remains in net cash position, while consolidated net debt is comfortable. It continues to look for asset monetization which would considerably free up equity and lower consolidated debt. It 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. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 323, considering its strong growth potential over the next two years.

One-year forward P/E (x) band

Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
PNC Infratech	12.4	11.3	6.9	6.4	1.7	1.5	14.9	14.2
KNR Constructions	18.1	16.3	10.1	9.2	2.7	2.4	16.7	15.8

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, the company 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, all of 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, which provide it the ability to execute projects on time. The company's strong order book along with expected order inflows during FY2023 is expected to lead to healthy earnings growth over the next two years. 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 and MD
Mr. Naveen Kumar Jain	Promoter
Mr. Chakresh Kumar Jain	Managing Director and CFO
Mr. Yogesh Kumar Jain	Managing Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	NCJ Infrastruture 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

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Priya Sonavane; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.