



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

Updated Dec 08, 2022

43.65

Severe Risk

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

Source: Morningstar

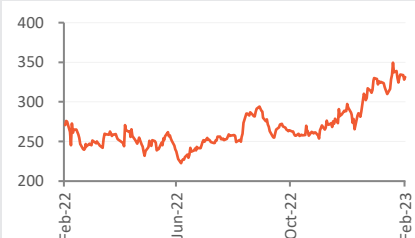
Company details

Market cap:	Rs. 8,499 cr
52-week high/low:	Rs. 355/219
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	9.3
DII	29.6
Others	5.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.7	25.5	28.3	22.5
Relative to Sensex	-1.2	26.6	25.9	16.8

Sharekhan Research, Bloomberg

PNC Infratech Ltd

Reiterate Buy on positive industry outlook

Infrastructure

Sharekhan code: PNCINFRA

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 331

Price Target: Rs. 390



Summary

- We retain a Buy on PNC Infratech Limited (PNC) with a revised PT of Rs. 390, rolling forward our valuation multiple to FY2025E earnings.
- The company reported broadly in-line standalone revenues despite the period getting affected by extended monsoons. Adjusted OPM stayed in-line. Standalone net profit was up 60% y-o-y.
- Management lowered FY2023 revenue growth guidance to 10% due to extended monsoons while upped FY2024 to 15% with receipt of appointed dates for five out of seven HAM projects. OPM to stay at 13.3-13.5%.
- Order inflow target for FY2023 retained at Rs. 8000-10000 crore considering strong bid pipeline of Rs. 1.1 lakh crore before March 2023. Asset monetization continue to remain on anvil.

PNC Infratech Limited (PNC) reported broadly in-line standalone revenues at Rs. 1627 crore (up 6.9% y-o-y) despite the quarter being impacted by extended monsoon during first three weeks of October. The standalone OPM at 12.8% (up 191bps y-o-y) came in tad below our estimate of 13.3% on account of Rs. 10 crore arrears paid to employees (adjusted OPM at 13.4%). Better OPM y-o-y along with lower interest expense, lower depreciation and lower effective tax rate led to 59.8% y-o-y jump in standalone profit at Rs. 129.4 crore. The management lowered its FY2023 revenue growth guidance to 10% (earlier 10-15%) on account of extended monsoon affecting execution while upped FY2024 guidance to 15% (earlier 10%) with receipt of appointed dates for five out of seven HAM projects. Its current order book at Rs. 17,842 crore (2.6x TTM standalone revenues) remain healthy despite nil order intake during FY2023 till date while it retained its Rs. 8000-10,000 crore order inflows for FY2023. On the asset monetization front, due diligence work on three projects is underway while it has floated NDA for nine projects to seven potential investors.

Key positives

- Standalone revenues grew by 7% y-o-y despite October month getting affected by rainfall at project sites. Adjusted OPM was maintained at 13.4%.
- Standalone net cash position stays healthy at Rs. 215 crores.

Key negatives

- Management lowered its FY2023 revenue growth guidance although upped for FY2024.
- Asset monetisation remained under discussions and is likely to sign a definitive agreement for three projects by FY2023-end.

Management Commentary

- About 100 projects worth Rs. 1,10,000 crores bids are there before March 2023 from NHAI and MORTH. Consequently, it retained Rs. 8000-10000 crore order inflows for FY23.
- It targets Rs. 900 crore/Rs. 2000 crore revenues from Jal Jeevan orders in FY2023/FY2024. It would have an executable order book of Rs. 3000 crores by FY2023 end. By FY2025, it targets to complete more than 90% of JJM orders.
- Currently, due diligence work is underway for three projects (Debt Rs. 1700 crore, equity Rs. 360 crores) by a potential investor. It has sent out NDAs for nine projects to seven potential investors.

Revision in estimates – We have fine-tuned our estimates for FY2023-FY2025.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 390: PNC has been affected by an extended monsoon during FY2023 leading to lowered guidance. However, receipt of appointed dates for five out of seven projects and a lower base is expected to lead to higher revenue growth during FY2024. The standalone OPM is expected to remain stable around 13.3-13.5% during FY2023/FY2024. It would be required to bag Rs. 8000-10,000 crore order inflows in the near term to maintain its growth rate post-FY2024 which we believe is achievable considering a strong project award pipeline for the industry. Further, the fructification of asset monetisation would help free up equity and de-leverage the consolidated balance sheet. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 390, rolling forward our valuation multiple to FY2025E earnings.

Key Risks

Delay in the execution of projects or inability to sustain OPM remains a critical risk to our call.

Valuation (Standalone)

Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	6,305.5	6,941.8	7,706.1	8,412.7
OPM (%)	12.5	13.4	13.5	13.6
Adjusted PAT	447.8	590.2	668.2	742.5
% YoY growth	23.7	31.8	13.2	11.1
Adjusted EPS (Rs.)	17.5	23.0	26.0	28.9
P/E (x)	19.0	14.4	12.7	11.4
P/B (x)	2.5	2.1	1.8	1.6
EV/EBIDTA (x)	10.8	9.1	8.1	7.4
RoNW (%)	14.3	16.3	15.8	15.1
RoCE (%)	15.1	16.7	16.2	15.5

Source: Company; Sharekhan estimates

Marginal miss on operational performance

PNC reported 6.9% y-o-y growth in standalone net revenues at Rs. 1,627 crore for Q3FY2023 which was 3% lower than our estimate. Standalone OPM at 12.8% (+191bps y-o-y) was marginally lower than our estimate of 13.3%. Standalone operating profit grew by 25.7% y-o-y to Rs. 208 crores (7% lower than our estimate). Strong operational performance along with lower depreciation (down 17.3% y-o-y), interest expense (down 22.3% y-o-y) and lower effective tax rate (25.6% vs 33.5% in Q3FY2022) led to 59.8% growth in standalone net profit at Rs. 129 crore which was 9% lower than our estimate.

Key Conference call takeaways

- ♦ **Guidance:** The company lowered its standalone revenue growth guidance to 10% y-o-y (earlier 10-15%) for FY2023 due to the extended monsoon season which affected execution till the third week of October. For FY2024, it targets 15% y-o-y revenue growth. It retained 13.3-13.5% OPM guidance for FY23 and FY2024. It retained Rs. 8000-10000 crore order inflows for FY23. About 100 projects worth Rs. 1,10,000 crores bids are there before March 2023 from NHAI and MORTH.
- ♦ **Q3FY23 performance:** Standalone revenues were up 7% y-o-y to Rs. 1627 crores, EBITDA was up 26% y-o-y to Rs. 208 crores and PAT was up 59% y-o-y to Rs. 129 crores. It accounted for Rs. 10 crores arrears to employees during Q3, adjusted for which OPM would have been 13.4% rather than 12.8%. Consolidated revenues were up 5% y-o-y to Rs. 1803 crores, EBITDA was up 6% y-o-y to Rs. 345 crores and PAT was up 68% y-o-y at Rs. 140 crores.
- ♦ **Debt:** Standalone debt is Rs. 150 crores, cash Rs. 365 crores, net cash Rs. 215 crores and net worth of Rs. 3752 crores. Consolidated debt is Rs. 5780 crores, cash Rs. 1100 crores, net debt to equity 1.4x and net worth of Rs. 4125 crores.
- ♦ **Industry:** During 9MFY2023, road awards by MORTH stood at 7263kms, up 18% y-o-y while construction stood at 5774kms as against target of 12000kms for FY2023. Union budget increased infrastructure capex by 33% y-o-y to Rs. 10 lakh crore. The highways sector is allocated Rs. 2.7 lakh crore, up 24% y-o-y from FY2023RE. NHAI allocation is increased to Rs. 1.62 lakh crore, up 14% y-o-y from FY2023RE. Jal Shakti Ministry allocation is increased by 41% y-o-y to Rs. 97,278 crores. Jal Jeevan Mission allocation is increased by 27% y-o-y to Rs. 69,684 crores.
- ♦ **Order book:** The current order book stands at Rs. 17,800 crores of which roads & highways comprise 65% and Water & canal 35%.
- ♦ **Jal Jeevan orders:** It targets Rs. 900 crore/Rs. 2000 crore revenues from Jal Jeevan orders in FY2023/ FY2024. It would have an executable order book of Rs. 3000 crores by FY2023 end. By FY2025, it targets to complete more than 90% of JJM orders. Till December 2022, it has executed Rs. 615 crores in JJM while in FY2022 it did Rs. 108 crores. During 9MFY2023, revenues from phase I and II were Rs. 507 crores. In Jal Jeevan's orders, four out of five phases have been bid out.
- ♦ **Asset monetisation:** It has selected twelve projects comprising eleven HAM and one BOT project for divestment having total debt of Rs. 6800 crores and equity of Rs. 1550 crore. Currently, due diligence work is underway for three projects (Debt Rs. 1700 crore, equity Rs. 360 crores) by a potential investor. It has sent out NDAs for nine projects to seven potential investors.
- ♦ **Equity requirement:** Out of the Rs. 2440 crore total equity requirement in HAM projects, it has infused Rs. 1176 crore as on December 2022 while the balance will be infused over a period of three years (Q4FY2023 – Rs. 135 crores, FY2024 – Rs. 450-500 crore and Rs. 350-400 crore in FY2025).
- ♦ **Capex:** Capex during 9MFY2023 was Rs. 37 crores. It would be incurring a capex of Rs. 100 crore in FY2023 and Rs. 100-120 crore in FY2024.

Results (Standalone)

	Rs cr				
Particulars	Q3FY2023	Q3FY2022	y-o-y%	Q2FY2023	q-o-q%
Net Revenue	1627.0	1522.0	6.9%	1561.1	4.2%
Other income	9.8	10.6	-7.4%	10.5	-6.9%
Total income	1636.7	1532.5	6.8%	1571.6	4.1%
Total expenses	1418.9	1356.5	4.6%	1354.1	4.8%
Operating profit	208.1	165.5	25.7%	207.0	0.5%
Depreciation	27.8	33.6	-17.3%	27.4	1.2%
Interest	16.2	20.8	-22.2%	15.5	4.8%
Profit Before Tax	173.9	121.7	42.9%	174.6	-0.4%
Taxes	44.5	40.7	9.2%	43.6	2.0%
PAT	129.4	81.0	59.8%	131.1	-1.3%
No of equity shares	25.7	25.7	0.0%	25.7	0.0%
EPS (Rs.)	5.0	3.2	59.8%	5.1	-1.3%
OPM (%)	12.8%	10.9%	191 bps	13.3%	-47 bps
NPM (%)	8.0%	5.3%	263 bps	8.4%	-44 bps
Tax rate (%)	25.6%	33.5%	-789 bps	24.9%	62 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Roads to remain one of the 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 and favourable government policies are expected to provide substantial growth opportunities for industry players. The road sector is recovering, with manpower strength and availability of materials nearing pre-COVID levels after easing of lockdown restrictions in the country. The industry is seeing strong order inflows and an improvement in execution run-rate. Proactive payments from NHAI have handled the working capital issues of the companies.

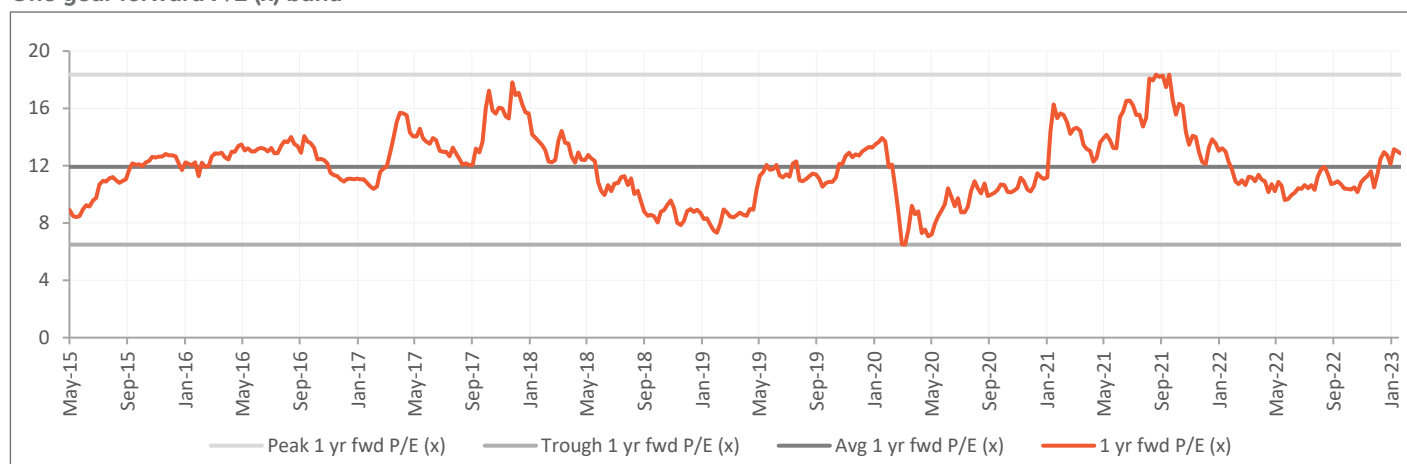
■ Company Outlook – Target healthy order intake over two years

The company eyes a 10% y-o-y standalone revenue growth and 13.5% OPM for FY23 due to execution getting affected by extended monsoon at its project sites. It expects 10-15% y-o-y standalone revenue growth for FY2024 with receipt of appointed dates for HAM projects. It targets Rs. 8000-10000 crore order inflows for FY23 and FY2024. The company's current order book stands at over Rs. 17,842 crores, which provides healthy revenue visibility over the next two years. On the asset monetisation front, the management expects to sign definitive agreements for specific projects by FY2023 end.

■ Valuation – Retain Buy with a revised PT of Rs. 390

PNC has been affected by an extended monsoon during FY2023 leading to lowered guidance. However, receipt of appointed dates for five out of seven projects and lower base is expected to lead to higher revenue growth during FY2024. The standalone OPM are expected to remain stable around 13.3-13.5% during FY2023/FY2024. It would be required to bag Rs. 8000-10,000 crore order inflows in the near term to maintain its growth rate post FY2024 which we believe is achievable considering a strong project award pipeline for the industry. Further, fructification of asset monetisation would help free up equity and de-leverage consolidated balance sheet. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 390, rolling forward our valuation multiple to FY2025E earnings.

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	14.4	12.7	9.1	8.1	2.1	1.8	16.3	15.8
KNR Constructions	18.3	15.7	10.0	9.0	2.7	2.3	16.1	16.1

Source: Sharekhan Research, Standalone financials

About company

PNC is an infrastructure construction, development, and management company with expertise in implementing 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 and 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 operational. The company has 11 HAM projects, of which five are under construction, one has received PCOD, one has achieved financial closure, and four 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 with the ability to execute projects on time. The company's strong order book along with expected order inflows 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 Infrastructure 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

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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 deteriorating 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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