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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 Dec 08, 2022				
Severe Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

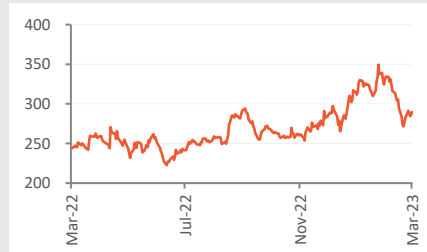
Company details

Market cap:	Rs. 7,431 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	-13.2	0.3	-1.5	18.7
Relative to Sensex	-11.0	5.2	0.1	12.3

Sharekhan Research, Bloomberg

PNC Infratech Ltd
Catching up with order wins

Infrastructure	Sharekhan code: PNCINFRA		
Reco/View: Buy	↔	CMP: Rs. 290	Price Target: Rs. 390
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy on PNC Infratech Limited (PNC) with an unchanged price target (PT) of Rs. 390, considering favourable risk-reward ratio and it being one of the key beneficiaries of a positive sector outlook.
- The company announced declaration of L1 bidder for two HAM projects aggregating to Rs. 2004 crore. Order wins comes at critical time due to nil order inflows during 9MFY2023.
- Road project awards and construction activities picked up in January 2023 with a 2.2x m-o-m jump and 2.6x m-o-m rise, respectively. Expect strong project awards during Q4FY2023.
- Order book as on Q3FY2023 remain healthy. Receipt of appointed dates for HAM projects along with expected order wins in near term would provide healthy revenue growth for FY2024 and FY2025.

PNC Infratech Limited (PNC) announced declaration of L1 bidder for two HAM projects of NHAI in Bihar aggregating Rs. 2004 crore. The order wins are critical due to nil order inflows during 9MFY2023 due to aggressive competitive bidding and weak sectoral tendering. As about 100 projects worth Rs. 1,10,000 crore bids are there before March 2023, it had retained its order inflow targets of Rs. 8000,10,000 crore for FY2023. Further, we have seen road tendering and construction activities picking up in January 2023 with road project awards up 2.2x m-o-m (up 2x y-o-y) and road project construction rose 2.6x m-o-m (up 2.9x y-o-y). We believe MORTH can near the targeted project awards for FY2023 (14,300 km), as we have seen during Q4FY2022/ March 2022 comprising 54%/40% of FY2022. The order book as on Q3FY2023 stood healthy at Rs. 17,842 crore (2.6x TTM standalone revenues), while receipt of new orders in the near term would aid healthy growth for FY2024 and FY2025.

- Breaking a lull in project wins:** PNC has been declared as the lowest bidder for two hybrid annuity projects of NHAI in Bihar aggregating Rs. 2004 crore. Both are expected to be constructed in 24 months and operated for 15 years, post construction. The order wins come at critical time as FY2023 before the wins had been week in terms of order inflows with nil order wins due to aggressive competitive bidding and overall muted sector project tendering.
- Tendering & construction activities picks up during January 2023:** Roads sector saw total road project awards rising by 22% y-o-y to 8400 km during FY2023 till January 2023 while road construction remained up 1.8% y-o-y to 6803 km. Road project awards saw 2.2x m-o-m jump (up 2x y-o-y) to 2082 km during January 2023 (2226 km awarded during Q3FY2023). Also, the road construction saw a 2.6x m-o-m jump (up 2.9x y-o-y) to 1466 km during January 2023 (1778 km constructed during Q3FY2023). We believe MoRTH can near the targeted project awards for FY2023 as we have seen Q4FY2022/March 2022 comprising 54%/40% of FY2022 project awards.
- Healthy order book:** PNC's order book as on Q3FY2023 end stood at Rs. 17,842 crore (2.6x TTM standalone revenues) despite nil order intake during 9MFY2023. Although FY2023 revenue growth is expected to remain muted at 10% y-o-y, FY2024 is expected to see 15% y-o-y revenue growth with OPM slated to remain stable at 13.3-13.5%. We expect healthy order inflows in the near term which would aid in healthy revenue growth for FY2024 and FY2025. Further due diligence work for monetisation of three assets is underway, the fructification of the same would help up free equity and de-leverage a consolidated balance sheet.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 390: PNC has been affected by an extended monsoon during FY2023 leading to lowered guidance for FY2023. However, receipt of appointed dates for HAM projects and expected order wins in the near term would lead to higher revenue growth during FY2024 and FY2025. Standalone OPM is expected to remain stable around 13.3-13.5% during FY2023/FY2024. It would be required to bag Rs. 6000-8,000 crore order inflows in the near term to maintain 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 PNC's consolidated balance sheet. We retain a Buy rating on the stock with an unchanged price target (PT) of Rs. 390, considering a favourable risk-reward ratio and it being one of the key beneficiaries of a positive sector outlook.

Key Risks

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

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)	16.6	12.6	11.1	10.0
P/B (x)	2.2	1.9	1.6	1.4
EV/EBIDTA (x)	9.4	8.0	7.1	6.5
RoNW (%)	14.3	16.3	15.8	15.1
RoCE (%)	15.1	16.7	16.2	15.5

Source: Company; Sharekhan estimates

Bags over Rs. 2000 crore HAM orders

PNC Infratech has been declared the L1 (lowest) bidder for two highway projects of NHAI as detailed below, with an aggregate bid project cost of Rs. 2004.43 crore. Price bids were opened on Thursday, March 9, 2023, with PNC's bids being lowest (L1 category). Both projects are to be constructed in 24 months and operated for 15 years, post construction. PNC had been unable to win projects during the current fiscal prior to these while it had maintained Rs. 8000-10,000 crore order inflow target for FY2023 during Q3FY2023 post earnings conference call. As per the company, about 100 projects worth Rs. 1,10,000 crore bids were there before March 2023 from NHAI and MORTH which we believe provide ample opportunities for the company to win projects in an aggressive bidding environment.

Projects details

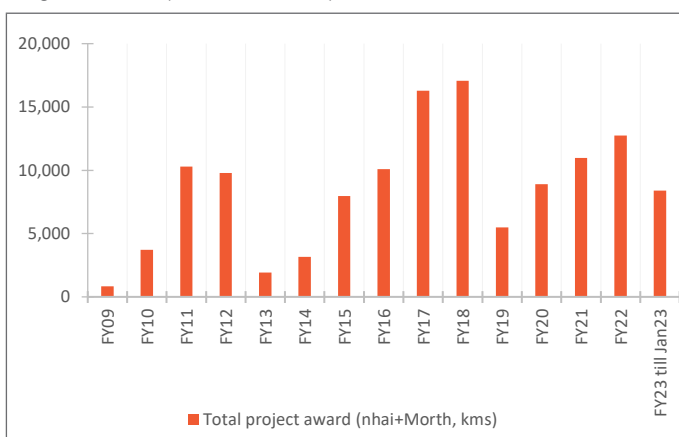
SN	Name of the Project	Bid project Cost (Rs cr)
1	Construction of 6-lane Greenfield Varanasi - Ranchi - Kolkata Highway from junction with Chandauli - Chainpur Road near Khainti village to junction with Bhabhua - Adhaura road near Palka village for 27.0 km length (from km 27+000 to km 54+000) under Bharatmala Pariyojana in the state of Bihar on Hybrid Annuity Mode - Package 2	891.00
2	Construction of 6-lane Greenfield Varanasi - Ranchi - Kolkata Highway from junction with Bhabhua - Adhaura Road in Bhairampur village to Konki village for 36.0 km length (from km 54+000 to km 90+000) under Bharatmala Pariyojana in Bihar on Hybrid Annuity Mode - Package 3	1113.43

Source: BSE

Project awards gather pace during January 2023

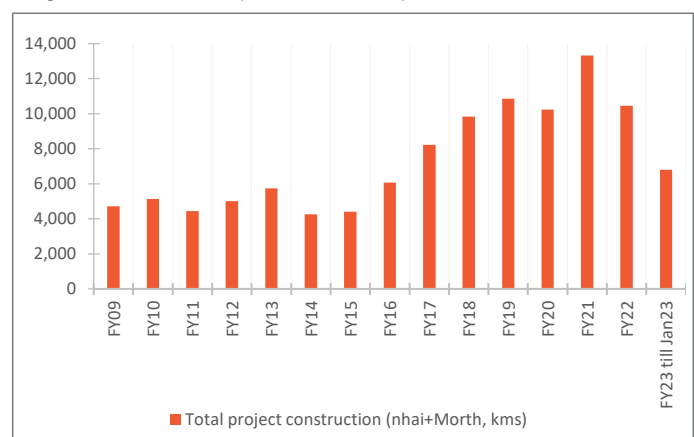
Total road project awards rose by 22% y-o-y to 8400 km during FY2023 till January 2023. However, construction was up only 1.8% y-o-y to 6803 km during the same period. The road project awards saw 2.2x m-o-m jump (up 2x y-o-y) to 2082 km during January 2023 (2226 km awarded during Q3FY2023). Also, the road construction saw a 2.6x m-o-m jump (up 2.9x y-o-y) to 1466 km during January 2023 (1778 km constructed during Q3FY2023). Overall, the road project awards and construction during FY2023 till January 2023 were 59% and 56% each of the targeted 14,300 km and 12,200 km for FY2023 respectively. We believe MoRTH can near the targeted project awards for FY2023 as we have seen Q4FY2022/March 2022 comprising 54%/40% of FY2022 project awards.

Project award (MORTH+NHAI) trend



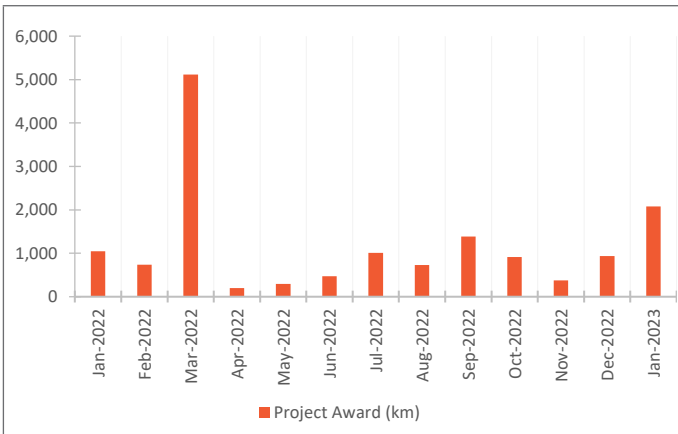
Industry: Sharekhan Research

Project construction (MORTH+NHAI) trend



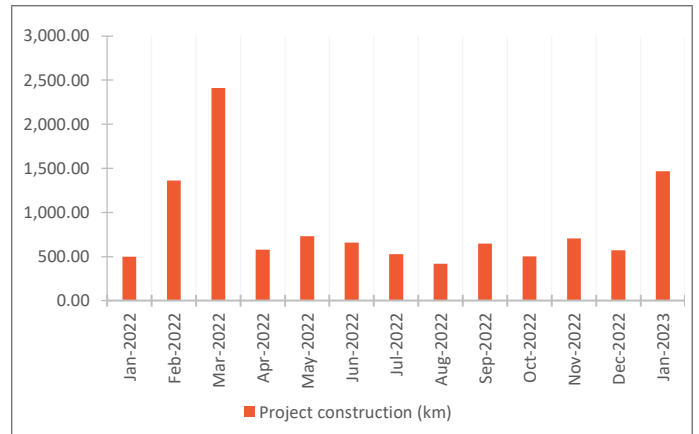
Industry: Sharekhan Research

Project awards (MORTH+NHAH) monthly trend



Source: Industry; Sharekhan Research

Project construction (MORTH+NHAH) monthly trend



Source: Industry; 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 and favourable government policies are expected to provide substantial growth opportunities for industry players. The roads sector is recovering, with manpower strength and availability of materials nearing pre-COVID levels after the country’s easing of lockdown restrictions. 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.

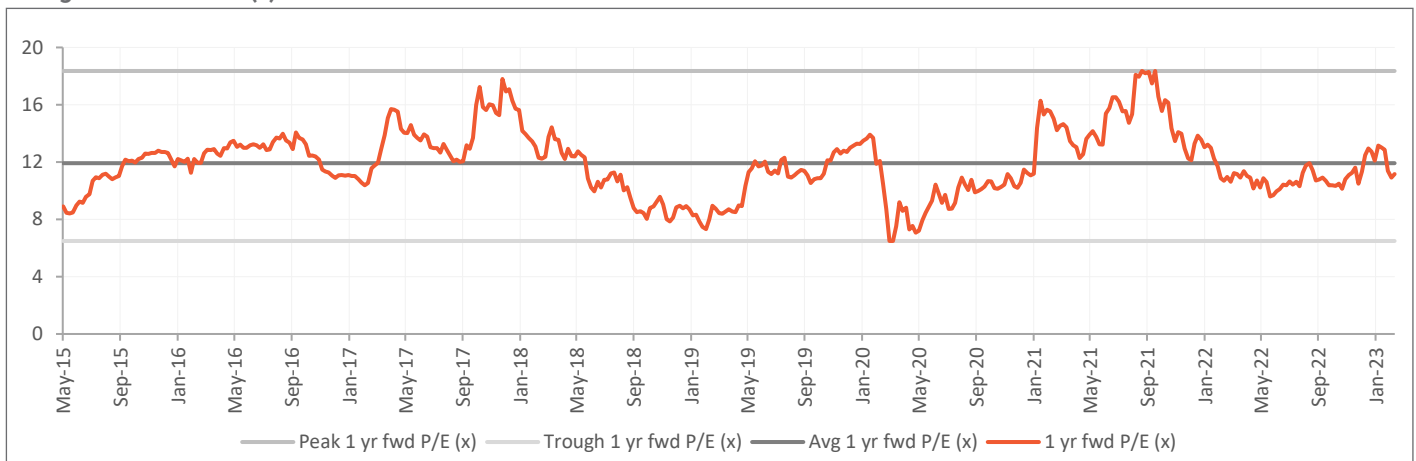
■ Company Outlook – Target healthy order intake over two years

The company eyes a 10-15% y-o-y standalone revenue growth and 13.5% OPM for FY23. It expects up to 10% y-o-y standalone revenue growth for FY2024 owing to delayed 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. 19,000 crore, which provides a 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 an unchanged PT of Rs. 390

PNC has been affected by an extended monsoon during FY2023 leading to lowered guidance for FY2023. However, receipt of appointed dates for HAM projects and expected order wins in the near term would lead to higher revenue growth during FY2024 and FY2025. Standalone OPM is expected to remain stable around 13.3-13.5% during FY2023/FY2024. It would be required to bag Rs. 6000-8,000 crore order inflows in the near term to maintain 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 PNC’s consolidated balance sheet. We retain a Buy rating on the stock with an unchanged price target (PT) of Rs. 390, considering a favourable risk-reward ratio and it being one of the key beneficiaries of a positive sector outlook.

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	12.6	11.1	8.0	7.1	1.9	1.6	16.3	15.8
KNR Constructions	19.6	16.7	10.7	9.7	2.9	2.5	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 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 because 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 and expected order inflows during FY2023 will 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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

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