Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

PNC Infratech Ltd

Order inflow guidance retained despite headwinds; Retain BUY

Infrastructure	Sharekhan code: PNCINFRA	
Reco/View: Buy ↔	CMP: Rs. 299	Price Target: Rs. 400 ↓

↑ 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		↔	

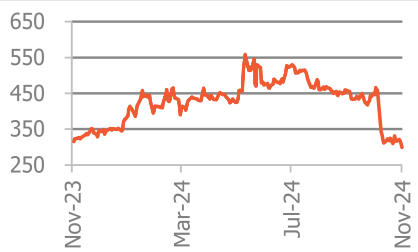
Company details

Market cap:	Rs. 7,669 cr
52-week high/low:	Rs. 575/297
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	10.1
DII	25.5
Others	8.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-33.7	-35.0	-29.7	-6.0
Relative to Sensex	-28.4	-33.1	-35.8	-24.1

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on PNC Infratech with a revised PT of Rs. 400, factoring downwardly revised estimates and lowering valuation multiple to factor in medium-term uncertainties with respect to its disqualification by MoRTH.
- Adjusted standalone revenues, OPM and net profit lagged estimates due to a delay in the receipt of appointed dates, heavy monsoons, and lower JJM project execution.
- Management has trimmed standalone revenue guidance, estimating a 15-20% y-o-y dip as against 10% y-o-y dip while retaining OPM guidance of 12-12.5% for FY2025.
- Company expects more than 30% y-o-y standalone revenue growth in FY2026. The company has retained its order inflow target of Rs. 13,000-15,000 crore for FY2025 pursuing Rs. 25000 crore orders ex-MORTH & NHAI.

PNC Infratech (PNC) reported materially lower-than-estimated standalone revenues of Rs. 1149 crore (down 32% y-o-y) affected by heavy monsoons. Standalone OPM at 11.6% (down 182 bps y-o-y) too lagged as against our estimate of 12.7%. Decline in revenues along with contraction in OPMs led to a decline of 42% y-o-y to Rs. 80.9 crore in standalone net profit. Weak execution during H1FY2025 has led to management lowering down its FY2025 standalone revenue growth guidance to a decline of 15-20% from a 10% y-o-y decline earlier, while it retained OPM guidance at 12-12.5%. It expects FY2026 standalone revenues to grow at over 30% y-o-y due to low base and expects OPM at 13%. The management retained its order inflow guidance of Rs. 13,000-15,000 crore for FY2025, having received ~Rs. 6700 crore till date and seeking Rs. 6000-8000 crore in remainder of the fiscal year. It is pursuing 20 bids amounting Rs. 25,000 crore from state and central government agencies barring MoRTH and NHAI. With regard to divestment of assets, it expects to close 10 assets out of 12 by FY2025 end and the balance two by Q1FY2026.

Key positives

- Company bagged Rs. 6700 crore orders during FY2025 till date, taking its total order book to Rs. 19.910 crore.
- Order inflow guidance for FY2025 retained at Rs. 13,000-15,000 crore.

Key negatives

- Standalone revenues, operating margins and net profit materially lagged estimates.
- Company trimmed standalone revenue guidance expecting a dip of 15-20% y-o-y as against 10% y-o-y dip for FY2025.

Management Commentary

- PNC has lowered its standalone revenue guidance for FY2025; it expects a 15-20% y-o-y decline as against 10% y-o-y decline. Standalone OPM guidance is retained at 12-12.5%. Due to low base, it expects FY2026 standalone revenues to grow at over 30% y-o-y and expects OPM to be 13%.
- Order inflow guidance remain unchanged at Rs. 13,0000-15,000 crore for FY2025. Having bagged Rs. 6700 crore orders, It seeks order inflows of Rs. 6000-8000 crore during H2FY2025.
- It has submitted eight bids amounting Rs. 11,000 crore floated by state and central agencies, excluding MORTH and NHAI. It has also identified twelve bids amounting Rs. 14,000 crore. Overall, it is pursuing Rs. 25,000 crore worth of projects.

Revision in estimates – We have downwardly revised our net earnings estimates for FY2025-FY2027, factoring in lower execution.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 400: PNC is expected to improve upon its execution run-rate from FY2026, led by a healthy order book and expected strong order inflows in H2FY2025. However, delay in the receipt of appointed dates and weak H1FY2025 execution is expected to lead to a sharp decline in standalone revenues in FY2025. The fructification of asset divestment is expected to deleverage the company's consolidated balance sheet apart from a release of equity capital for future investments. The stock has corrected by ~35% since MORTH disqualified it from participating in any tenders for one year starting October 18, 2024 . Currently, its standalone EPC business is trading at an implied P/E of ~12x/10x its FY2026E/FY2027E earnings. We retain our Buy rating with a revised PT of Rs. 400, factoring downwardly revised estimates and lowering valuation multiple to factor in medium term uncertainties with respect to its disqualification by MORTH.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	7,402.2	5,842.0	7,389.5	8,363.8
OPM (%)	13.2	11.6	12.2	12.1
Adjusted PAT	628.5	437.6	578.7	659.7
YoY growth (%)	2.8	(30.4)	32.3	14.0
Adjusted EPS (Rs.)	24.5	17.1	22.6	25.7
P/E (x)	12.2	17.5	13.3	11.6
P/B (x)	1.6	1.4	1.2	1.1
EV/EBITDA (x)	7.8	11.3	8.5	7.5
RoNW (%)	14.4	8.5	10.0	10.3
RoCE (%)	14.3	9.0	10.2	10.5

Source: Company; Sharekhan estimates

Key conference call takeaways

- **Guidance:** PNC lowered its standalone revenue growth guidance to 15-20% y-o-y decline as against 10% y-o-y decline earlier for FY2025. It retained OPM guidance for FY2025 at 12-12.5%. Due to low base, it expects FY2026 standalone revenues to grow at over 30% y-o-y and expects OPM to be 13%. The order inflow guidance remain unchanged at Rs. 13,0000-15,000 crore for FY2025. Having bagged Rs. 6700 crore orders, it seeks order inflows of Rs. 6000-8000 crore during H2FY2025.
- **Sector highlights:** Over the past six months, there has been an unprecedented subdued execution due to heavy monsoons, non-possession of land by NHAI and elections. For FY2025 till August 2024, MORTH has awarded only 700 kms compared to 1750 km last year and constructed 2700 kms compared to 3200 km last year.
- **Outlook:** Management expects pick-up in tendering activities starting December 2024. It has submitted eight bids amounting Rs. 11,000 crore floated by state and central agencies, excluding MORTH and NHAI. It has also identified twelve bids amounting Rs. 14,000 crore. Overall, it is pursuing Rs. 25,000 crore worth of projects.
- **Q2FY25 highlights:** Standalone revenues stood at Rs. 1149 crore, EBITDA at Rs. 134 crore, EBITDA margins at 11.6% and net profit at Rs. 81 crore. Consolidated revenues stood at Rs. 1427 crore, EBITDA at Rs. 356 crore, EBITDA margin at 25% and net profit at Rs. 83 crore.
- **Order book:** Current order book stands at Rs. 19,900 crore (including contracts were appointed date is awaited of Rs. 6836 crore). Highways comprise 65% and balance 35% from water, canal, railways etc. MORTH (including NHAI) orders comprise 33% and balance 67% from other authorities.
- **Equity investment:** The company has invested Rs. 2220 crore out of Rs. 3092 crore equity required in HAM projects. The balance Rs. 872 crore will be invested as follows H2FY2025 – Rs. 484 crore, FY2026 – Rs. 256 crore and FY2027 – Rs. 132 crore.
- **Project portfolio:** It has 28 road assets totalling Rs. 30,000 crore of which 3 are BOT-Toll, 2 – BOT-Annuity and 23 – HAM. Out of 23 HAM projects, it has received PCOD/COD for eleven projects, eight are under-construction.
- **Divestment:** Of the 12 assets earmarked for divestment, it is likely to close 10 assets by FY2025 end and balance 2 by Q1FY2026. In 10 assets, it has invested Rs. 1490 crore as equity, debt outstanding is Rs. 5500 crore and total EV is Rs. 7690 crore. In total 12 assets, it has invested Rs. 1739 crore equity and debt outstanding is Rs. 6480 crore.
- **Capex:** It would be incurring Rs. 30-40 crore capex in FY2025 (earlier Rs. 80-100 crore). Capex during H1FY2025 was Rs. 7 crore. Capex for FY2026 is estimated at Rs. 100-120 crore.

Results (Standalone) **Rs cr**

Particulars	Q2FY2025	Q2FY2024	y-o-y (%)	Q1FY2025	q-o-q (%)
Net Revenue	**1149.1**	**1693.0**	**-32.1%**	**1309.2**	**-12.2%**
Other income	12.9	5.7	125.0%	8.6	49.8%
Total income	1162.0	1698.8	-31.6%	1317.9	-11.8%
Total expenses	1015.5	1465.4	-30.7%	1150.9	-11.8%
Operating profit	**133.6**	**227.6**	**-41.3%**	**158.3**	**-15.6%**
Depreciation	22.6	25.7	-12.1%	22.5	0.4%
Interest	15.2	18.7	-19.0%	12.9	17.7%
Profit Before Tax	**108.8**	**189.0**	**-42.4%**	**455.8**	**-76.1%**
Taxes	27.9	49.2	-43.3%	34.7	-19.6%
Reported PAT	80.9	139.8	-42.1%	421.1	-80.8%
Adjusted PAT	**80.9**	**139.8**	**-42.1%**	**96.9**	**-16.5%**
No. of equity shares	25.7	25.7	0.0%	25.7	0.0%
Adjusted EPS (Rs.)	**3.2**	**5.4**	**-42.1%**	**3.8**	**-16.5%**
			BPS		**BPS**
OPM (%)	11.6%	13.4%	-182	12.1%	-46
NPM (%)	7.0%	8.3%	-122	32.2%	-2512
Tax rate (%)	25.6%	26.0%	-41	7.6%	1803

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector Outlook – 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 roads sector is expected to witness investments worth Rs. 20 lakh crore 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 easing of lockdown restrictions in the country. The industry is seeing strong order inflows and a better execution run rate. Proactive payments from NHAI have handled the working capital issues of the companies.

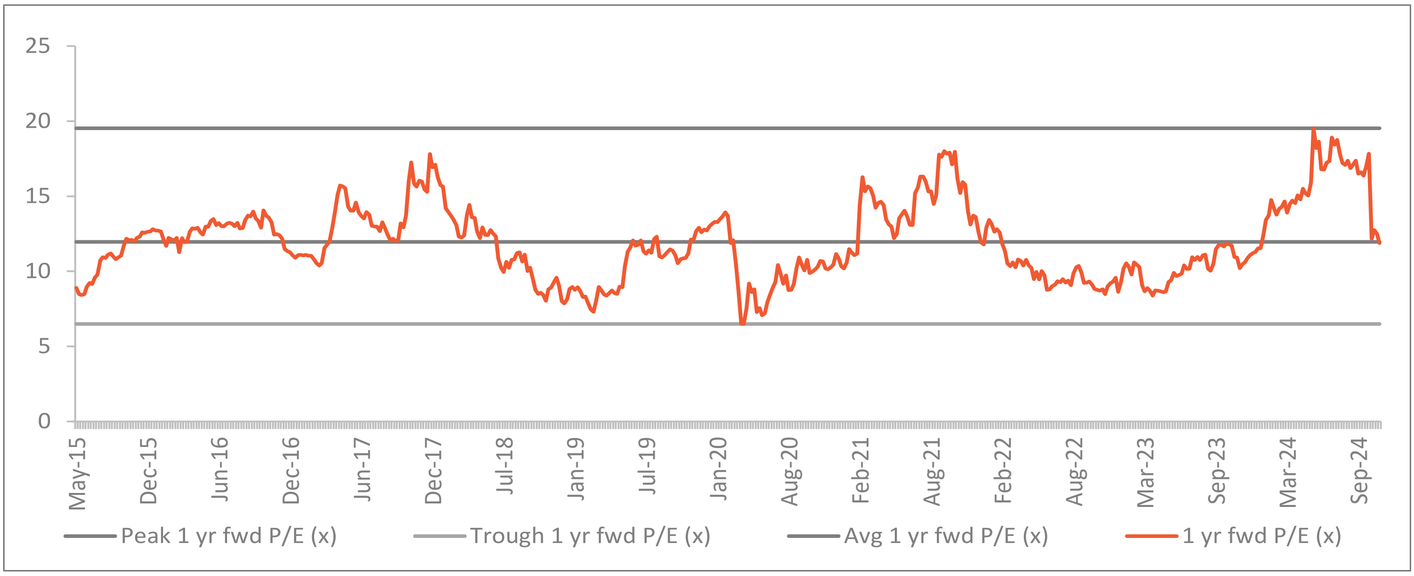
■ **Company Outlook – Expect growth recovery from FY2026**

Company eyes a 15-20% y-o-y decline in standalone revenue for FY2025 due to a delay in the receipt of appointed dates in certain projects, while OPM is expected to be at 12-12.5%. The company targets Rs. 13,000-15,000 crore order inflows in FY2025, with expected pick-up in tendering activities. The company's current order book stands at Rs. 19,900 crore, which offers a healthy revenue visibility over the next two years. On the asset monetisation front, management has signed a share purchase agreement for the divestment of 12 assets at an EV of Rs. 9,006 crore and P/B of 1.7x. The company remains one of our preferred picks in the road construction sector, which is expected to benefit from the government's continued focus on infrastructure development.

■ **Valuation – Retain BUY with a revised PT of Rs. 400**

PNC is expected to improve upon its execution run-rate from FY2026, led by a healthy order book and expected strong order inflows in H2FY2025. However, delay in the receipt of appointed dates and weak H1FY2025 execution is expected to lead to a sharp decline in standalone revenues in FY2025. The fructification of asset divestment is expected to deleverage the company's consolidated balance sheet apart from a release of equity capital for future investments. The stock has corrected by ~35% since MORTH disqualified it from participating in any tenders for one year starting October 18, 2024 . Currently, its standalone EPC business is trading at an implied P/E of ~12x/10x its FY2026E/FY2027E earnings. We retain our Buy rating with a revised PT of Rs. 400, factoring downwardly revised estimates and lowering valuation multiple to factor in medium term uncertainties with respect to its disqualification by MORTH.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
PNC Infratech	17.5	13.3	11.3	8.5	1.4	1.2	8.5	10.0
KNR Constructions	22.5	16.3	12.9	10.1	2.3	2.0	11.1	13.6

Source: Sharekhan Research, Standalone financials

About the 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 executed and implemented by the company 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 are 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 would affect net earnings.
- A weak macro environment leading to low visibility of project tendering would affect the business outlook.
- Increased interest rates, commodity prices, and tightening liquidity are inherent business risks.

Additional Data

Key management personnel

Pradeep Kumar Jain	Chairman and MD
Naveen Kumar Jain	Promoter
Chakresh Kumar Jain	Managing Director and CFO
Yogesh Kumar Jain	Managing Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	NCJ Infrastructure Pvt. Ltd.	9.65
2	HDFC Asset Management Co. Ltd.	9.01
3	Jain Yogesh Kumar	8.53
4	Jain Pradeep Kumar	8.03
5	Jain Naveen Kumar	7.05
6	Jain Madhavi	7.02
7	Jain Chakresh Kumar	4.59
8	Jain Vaibhav	4.55
9	ICICI Prudential Asset Management	3.08
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

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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