July 12, 2022

Healthy execution likely for EPC companies…

We expect healthy execution for construction companies on a YoY basis amid healthy order book albeit margin softness is likely to be seen YoY, with higher raw material prices. For real estate companies, sales volume growth is likely to be a function of new launches. Commercial leasing is expected to see marked pick up while retail (malls), hospitality are anticipated to continue to post stronger numbers with consumption showing healthy uptick.

Robust sales volume growth on YoY basis on benign base…

We anticipate residential sales momentum will remain strong YoY on a benign base amid sustained demand and new launch offtake. However, sales volume growth trend will be mixed, driven by new launches. We bake in ~96% YoY (down ~3% QoQ) growth in sales volume at ~15 lakh sq ft, with base being benign and driven by strong offtake from launches, for Brigade. However, Oberoi Realty reported sales volume of ~4 lakh sq ft area during Q1FY23, up 3.6x YoY but down 23% QoQ, possibly with Worli project volumes not taking off and softness in Borivali project volumes. On the leasing front, new commercial leasing activity is expected to remain robust with economic reopening. The hospitality and retail segment is likely to show strong recovery with occupancies and ARRs inching up.

For Kajaria, we expect tiles sales volumes to witness strong growth of ~57.4% YoY on a benign base (down 7.5% QoQ). We expect overall revenues to grow ~82.4% YoY to ₹ 1124.2 crore, also aided by 16% YoY realisations growth on account of price hikes taken to combat gas prices. We expect EBITDA margins of 14%, down 30 bps YoY (down 110 bps QoQ) owing to higher gas prices.

Healthy execution; order inflows trend mixed…

Order inflows across the construction universe remained largely mixed during Q1FY23. Inflows for developers such as a) HG Infraprojects (secured sub-contracting job from Adani Group for Ganga Expressway worth ₹ 4,971 crore), b) NCC (declared jobs amounting to ₹ 6,388 crore), c) Ashoka Buildcon (won orders totalling ~₹ 2,500 crore) and d) PSP projects (secured orders worth ~₹ 1,195 crore) remained healthy. However, companies like KNR Constructions, PNC Infratech, GR Infraprojects have not announced any major order intake amid heightened competitive intensity and their conservative approach on margins.

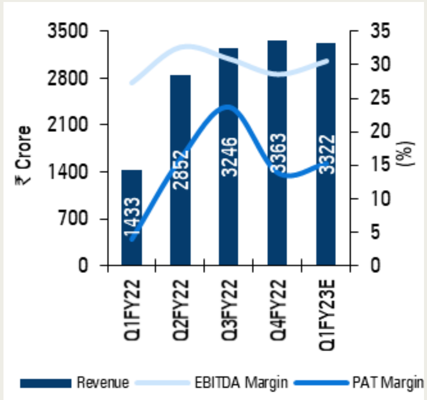
On execution front, we expect our road & construction universe to witness 12% YoY growth in revenues at ₹ 9248.7 crore. Additionally, EBITDA margin of our universe is expected to hover at ~13.1% (down 110 bps YoY, flattish QoQ) with higher raw material prices. Consequently, we expect our universe PAT to decline marginally by 1.9% YoY to ₹ 624.7 crore.

Exhibit 1: Estimates for Q1FY23E: (Real Estate & Building Material) (₹ crore)

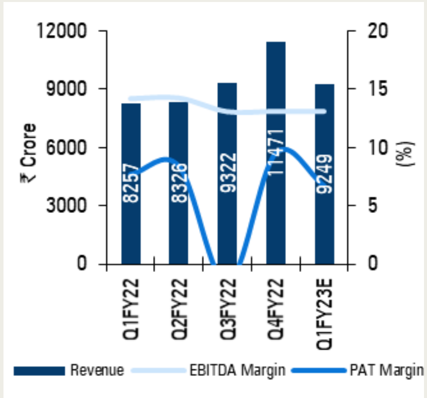
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
Oberoi Realty	824.0	189.9	0.1	379.0	203.5	7.7	256.0	217.5	10.2
The Phoenix Mills	523.0	156.0	5.6	274.0	260.0	13.7	125.0	LP	19.3
Brigade Enterprises	951.0	148.4	0.9	220.0	97.7	7.2	40.0	LP	23.2
Kajaria Ceramics	1,024.2	82.4	-7.0	143.2	-13.7	78.1	84.7	96.4	-11.5
Total	**3,322.2**	**131.8**	**-1.2**	**1,016.2**	**112.5**	**15.7**	**505.7**	**790.4**	**8.7**

Source: Company, ICICI Direct Research

Topline & Profitability (Real Estate Universe)



Topline & Profitability (Infra Universe)



Real estate sales volume trend

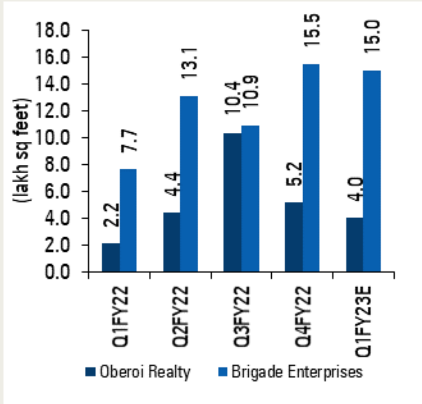


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Exhibit 2: Company Specific Views (Real Estate & Building Materials)

Company	Remarks
Oberoi Realty	Oberoi Realty clocked sales bookings of 4.01 lakh sq ft area during Q1FY23, up 3.6x YoY (with total booking value of ₹ 752 crore). On a QoQ basis, sales volume has declined by 23%. Ex- new launches, sales volumes are a tad lower than sustenance rate, possibly with Worli project volumes not taking off and softness in Borivali volumes. On the financial front, we expect topline to grow ~190% YoY to ₹ 824 crore, on a depressed base, where execution was impacted amid second wave in Q1FY22. Overall, we expect ORL net income to be up 213% YoY at ₹ 256 crore, given a low base. **Key Monitorable** Commentary on sales volumes momentum, progress on Thane launch
The Phoenix Mills	Phoenix Mills in its quarterly operational update shared that retail consumption during Q1FY23 was at ₹ 2159.6 crore (121% of Q1FY20- pre-Covid), with like to like consumption at 109%. Commercial segment saw incremental leasing of 0.15 msf, highest ever in Q1. Additionally, occupancy levels for key hotel St. Regis has come back to 85% vs. 83% in pre-Covid. In the residential space, the company achieved overall sales of ₹ 70.4 crore up ~90% YoY, backed by strong demand and faster conversions. Thus, we expect Phoenix Mills' (Phoenix) revenues to grow 156% YoY to ₹ 523 crore (base quarter was washout amid second wave). At the PAT level, we expect ₹ 125 crore, vs. loss of ₹ 26.2 crore in base quarter. **Key Monitorable**: Outlook on business ahead and any new asset addition
Brigade Enterprises	We expect BEL's sales volumes to grow ~96% YoY (down ~3% QoQ) to 15 lakh sq ft, with base being benign and driven by strong offtake from launches during the quarter. On the financial front, we expect the topline to grow 148.4% YoY to ₹ 951 crore, driven by higher revenue recognition in residential (base was washout), along with recovery in hospitality and mall portfolio performance, Overall, at the PAT level, we expect ₹ 40 crore, vs. loss in the base quarter. **Key Monitorable**: Sales volume and outlook ahead
Kajaria Ceramics	We expect tiles sales volumes to witness strong growth of ~57.4% YoY on a benign base (down 7.5% QoQ). We expect overall revenues to grow ~82.4% YoY to ₹ 1024.2 crore, also aided by 16% YoY realisations growth on account of price hikes taken to combat gas prices. We expect EBITDA margins of 14%, down 30 bps YoY (down 110 bps QoQ) owing to higher gas prices. We expect the bottomline at ₹ 84.7 crore, (down ~11.5% QoQ). **Key Monitorables**: Management commentary on demand outlook and gas prices

Source: Company, ICICI Direct Research

Exhibit 3: Real Estate and Building Material Coverage Universe

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Oberoi Realty (OBEREA)	822	Hold	29,890	28.8	30.7	40.0	28.5	26.8	20.6	27.0	26.0	20.0	2.9	2.6	2.4	7.8	7.1	10.7
The Phoenix Mills (PHOMIL)	1,264	Buy	22,562	13.3	27.7	35.1	95.0	45.6	36.0	34.0	22.0	17.0	3.4	3.2	2.9	4.4	9.1	10.7
Brigade Enterprises (BRIENT)	452	Buy	10,405	3.6	7.6	10.2	125.6	59.5	44.3	18.0	15.0	12.0	3.6	3.5	3.4	2.8	5.8	7.6
Kajaria Ceramics (KAJCER)	1,013	Buy	16,129	23.7	28.4	33.2	42.8	35.7	30.5	25.7	22.2	20.0	7.6	6.9	6.2	17.8	19.4	20.2

Source: Company, Bloomberg, ICICI Direct Research

Exhibit 4: Estimates for Q1FY23E: (Roads & Construction) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
Ashoka Buildcon	1,188.0	17.5	-23.8	129.0	7.6	-17.5	82.0	-19.1	-56.4
PNC Infratech	1,501.4	20.0	-21.7	195.4	11.3	-13.1	116.5	24.8	-15.7
HG Infra	1,012.0	11.0	-1.4	153.8	3.6	-1.9	87.3	-1.8	-4.1
NCC	2,220.0	17.3	-29.2	212.0	6.2	-20.6	48.0	-7.1	-80.3
KNR Construction	777.0	5.0	-23.1	143.7	0.3	-30.9	77.4	6.0	-31.4
GR Infra	2,175.8	2.0	-4.1	330.7	-4.2	-17.9	188.5	-7.4	-28.9
PSP Projects	374.5	18.0	-32.6	46.8	18.8	-46.9	25.1	-0.1	-53.4
Total	**9,248.7**	**12.0**	**-19.4**	**1,211.5**	**3.4**	**-19.4**	**624.7**	**-1.9**	**-42.8**

Source: Company, ICICI Direct Research

Exhibit 5: Exhibit 2: Company Specific Views (Roads & Construction)

Company	Remarks
Ashoka Buildcon	We expect Ashoka Buildcon to report topline growth of 17.5% YoY to ₹ 1,188 crore, driven by pick-up in execution and comfortable order book position. However, its EBITDA margin is likely to hover at ~10.9% (down 100 bps YoY on account of higher input prices). We expect PAT to decline 19.1% YoY to ₹ 82 crore, amid muted operating profit and lower other income. **Key Monitorable**: Management commentary on execution ahead, and progress on asset monetization and net debt
HG Infra	Revenue during Q1FY23 is likely to improve 11% YoY (to ₹ 1,012 crore) to be driven by its comfortable order book position and pick-up in execution with receipts of appointed date in most of the projects. However, operating margin likely to moderate to 15.2% with higher input prices (vs 16.3% in Q1 FY22). Consequently, we expect bottomline to decline 1.8% on YoY basis (to ₹ 87.3 crore). **Key monitorable**: Management commentary on order inflows, update on key projects, impact of RM on margins, and monetisation
NCC Ltd	We anticipate topline will grow 17.3% YoY to ₹ 2220 crore with a pick-up in execution pace and elevated order book position. However, its operating margin is likely to moderate to 9.5% (down 100 bps YoY) due to higher raw material prices. With muted operational performance, PAT at ₹ 48 crore may be down ~7% YoY. **Key monitorable**: Management commentary on order inflows, competitive intensity, status on Andhra Pradesh orders, receivables and net debt
PNC Infratech	We expect topline growth of 20% YoY (at ₹ 1,501.4 crore) to be driven by superior execution and comfortable order book position. EBITDA margin is likely to remain at its normalised level (at 13%, down 100 bps) backed by better project mix (expects some impact of higher raw material prices). Consequently, we expect PAT to grow 24.8% YoY to ₹ 116.5 crore with better operational efficiency and lower tax outgo. **Key Monitorable**: Management commentary on execution of HAM and water supply projects, and update on asset monetisation plans
KNR Constructions	We expect 5% improvement in topline (to ₹ 777 crore) on YoY basis with execution needing to be watched in certain irrigation projects. Additionally, EBITA margin is likely to moderate to ~18.5% (still best in the industry) with lower contribution from better margin irrigation jobs. Consequently, we expect bottomline to grow 6% YoY (to ₹ 77.4 crore). **Key Monitorable**: Management commentary on order inflows, progress on key HAM and irrigation projects, update on pending dues
GR Infraprojects	Revenue during Q1FY23 are likely be to muted with growth of 2% YoY (to ₹ 2,175.8 crore) to be impacted by delays in receipts of appointed date of HAM projects. EBITDA margin is also expected to moderate to 15.2% (down 100 bps YoY) with change in project mix with higher contribution from EPC projects. Consequently, muted operating performance and moderation in margin is likely to reduce PAT by 7.4% YoY (to ₹ 188.5 crore). **Key Monitorable**: Management commentary on order inflows, expected receipts of appointed date, execution ahead, and progress on InVIT
PSP Projects	Revenue during Q1FY23 is likely to improve 18% YoY (to ₹ 374.5 crore) to be driven by its comfortable order book position and pick-up in execution with most projects under implementation. Operating margin may remain at its normalised level of ~12.5%. However, higher depreciation and interest cost is expected to translate into flattish PAT at ₹ 25.1 crore **Key monitorable**: Update on execution of key projects, and impact of higher raw material prices on margins

Source: Company, ICICI Direct Research

Exhibit 6: Infra Coverage Universe

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
KNR Constructions (KNRCON	239	Buy	6,713	13.6	12.4	17.6	17.6	19.3	13.6	9.5	10.5	8.0	3.0	2.6	2.2	17.0	13.5	16.2
PNC Infratech (PNCINF)	243	Buy	6,216	17.5	20.9	24.6	13.9	11.6	9.9	7.6	6.6	5.7	1.9	1.6	1.4	13.4	13.9	14.1
Ashoka Buildcon (ASHBUI)	76	Hold	2,138	-13.1	13.9	16.2	NM	5.5	4.7	6.1	5.4	4.7	0.8	0.7	0.6	NM	12.9	13.0
NCC (NAGCON)	59	Hold	3,567	8.0	6.9	8.0	7.3	8.5	7.3	4.3	4.0	3.7	0.6	0.6	0.5	5.9	6.9	7.5
HG Infra (HGINF)	539	Buy	3,517	52.0	60.6	67.6	10.4	8.9	8.0	6.5	5.8	5.0	2.6	2.0	1.6	24.8	22.5	20.2
GR Infra (GRINFR)	1,205	Reduce	11,655	78.7	79.0	97.2	15.3	15.3	12.4	10.0	9.5	8.5	2.7	2.3	2.0	15.4	15.0	16.2
PSP Projects (PSPPRO)	614	Buy	2,210	45.1	42.5	50.6	13.6	14.4	12.1	8.3	8.6	7.2	3.2	2.7	2.3	23.7	18.9	19.0

Source: Company, ICICI Direct Research, Reuters

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