October 14, 2020

Strong QoQ recovery to be seen…

The key theme for Q2FY21E earnings for the construction & real estate universe will be recovery. For construction companies, post a washout Q1, we expect execution to get ramped up in Q2, albeit extended monsoon and still suboptimal execution (execution efficiency ranging at 70-85%) will result in a slightly weak print YoY. However, we expect Q2 to be the last quarter of topline weakness as improved labour availability and post monsoon period will drive recovery. For real estate companies, amid stable commercial segment and improving residential sales volume (albeit weak YoY), the pain will be largely felt owing to rental waiver in the retail segment and near non-operational hospitality portfolio.

Pain across retail, hospitality amid improving residential volume

We anticipate residential sales will bounce back from a dismal Q1 that was impacted by Covid-19 led lockdowns. Various industry sources peg residential sales volumes in the major seven or eight cities at ~70-80% of Q2FY20 levels. Coupled with benign mortgage rates, some discounts and stamp duty cut in Maharashtra, sales volume momentum should revive in our view, albeit sub optimal till the economic weakness persists. We bake in ~20%, ~30% YoY decline in sales volumes of Brigade, Oberoi Realty, respectively. On the leasing front, new leasing activity is likely to be impacted and may see a recovery only in H2. However, commercial rental of operational assets is largely insulated. The worst hit segment will again be hospitality coupled with retail rental trend owing to rental waiver given by developers for the lockdown period and a few months thereafter.

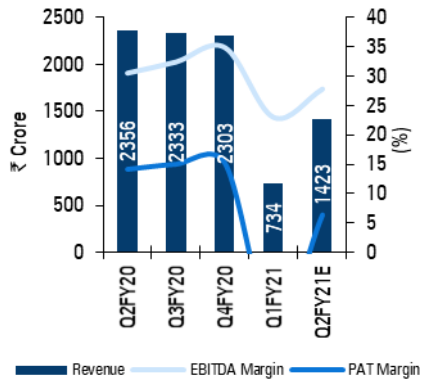
For Kajaria, we expect sales volumes to recover sharply after the easing of lockdown and largely from tier II, III towns. Hence, we expect sales volume to de-grow ~15% YoY to 16.7 MSM in Q2FY21E, much better than 61% decline seen in Q1. On the revenue front, we expect it to de-grow ~15% YoY to ₹ 605.8 crore mainly impacted by volume decline. Given the gas price decline and cost cuts taken by the company, we expect EBITDA margins to expand 120 bps QoQ to 15.9%. Overall, we expect the bottomline to see a decline of ~40% YoY to ₹ 55.8 crore as the base quarter had some tax benefits. PBT decline is expected at ~12% YoY.

Infrastructure: Recovery as expected; growth likely from Q3

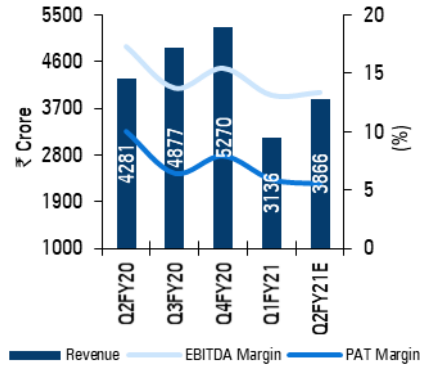
A mixed trend was seen for order inflows across the construction universe. NCC announced order inflows worth ₹ 2962 crore across building water and irrigation segment. PNC won two EPC projects and a water project totalling ~₹ 1823 crore. KNR has received one project worth ₹ 1157 crore. Ashoka Buildcon, on the other hand, won one EPC project worth ₹ 1390 crore.

On the execution front, we expect construction companies to see a marked improvement QoQ. However, heavy monsoons coupled with sub-optimal execution efficiency due to labour availability (albeit better than Q1) will result in a weaker topline YoY. KNR is expected to report relatively resilient revenues (up ~1% YoY on an adjusted basis) given the execution in irrigation projects. On an overall basis, we expect our road & construction universe to post revenue de-growth by 9.7% YoY to ₹ 3866 crore. The EBITDA margin of our universe is expected to contract 390 bps YoY to 13.4% (~100 bps on adjusted basis, as base quarter had certain one-offs) Overall, we expect our universe PAT to de-grow 50.5% YoY to ₹ 212.6 crore with weakness in operating performance and certain one-off impacts.

Topline & Profitability (Real Estate Universe)



Topline & Profitability (Infra Universe)



Research Analyst

Bhupendra Tiwary, CFA

bhupendra.tiwary@icicisecurities.com

Exhibit 1: Estimates for Q2FY21E: (Real Estate & Building Material) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ
Oberoi Realty	320.2	-34.8	171.3	137.7	-35.3	137.6	84.9	-38.5	202.5
The Phoenix Mills	167.2	-59.7	24.1	85.0	-59.7	20.9	-14.3	PL	NA
Brigade Enterprises	330.0	-55.1	62.3	76.6	-59.7	61.6	-34.9	PL	NA
Kajaria Ceramics	605.8	-15.2	118.2	96.1	-8.6	LP	55.8	-40.1	LP
Total	**1,423.1**	**-39.6**	**94.0**	**395.4**	**-45.0**	**135.3**	**91.6**	**-72.6**	**LP**

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific Views (Real Estate)

Company	Remarks
Oberoi Realty	Post lockdown lifting, we expect sales volumes to rebound (albeit weaker YoY). We bake in sales volumes decline of ~30% YoY at ~97600 sq feet. On the financial front, it is likely to witness a sharp decline in revenue on account of rental wavier for lockdown period, non-operational hospitality portfolio and relatively weaker execution given suboptimal labour and heavy monsoon. On the financial front, we expect topline to de-grow 34.5% YoY to ₹ 320.2 crore on account of relatively lower real estate revenue recognition and impact on mall and hospitality portfolio. Overall, we expect net income to decline 38.5% YoY at ₹ 84.9 crore. **Key Monitorable**: Progress on annuity portfolio, commentary on sales volumes, progress on new launches such as Thane & Exquisite-III in Goregaon
The Phoenix Mills	We expect Phoenix Mills' (Phoenix) revenues to de-grow 59.7% YoY to ₹ 167.2 crore on account of the impact on retail and hospitality portfolio due to waiver and near closure, respectively. On the core portfolio front (retail, commercial, hospitality business), we expect revenues to de-grow 61.1% YoY since retail and hospitality segments are expected to be impacted the most amid rental waiver offer by the company for malls during closure and post reopening and modest occupancy in hospitality segment. EBITDA margin is expected to be flattish YoY, given cost rationalisations. At PAT level, we expect losses given the weak operating performance **Key Monitorable**: Outlook on business and status of operations post reopenings
Brigade Enterprises	We expect BEL's sales volumes to decline ~20% YoY to 9.1 lakh sq ft, with the decline being lower given the resilient nature of Bengaluru real estate. On the financial front, with lower residential revenues recognition, we expect the topline to de-grow 55.1% YoY to ₹ 330 crore, also impacted by Covid-19 effect on hospitality and mall portfolio. Overall, at the PAT level, we expect losses given the sharp decline in operating profits **Key Monitorable**: Outlook on business and status of operations post reopenings
Kajaria Ceramics	We expect Kajaria's sales volumes to recover sharply after the easing of lockdown and largely from tier II, III towns. Hence, we expect sales volume to de-grow ~15% YoY to 16.7 MSM in Q2FY21E, much better than 61% decline seen in Q1. On the revenue front, we expect it to de-grow ~15% YoY to ₹ 605.8 crore mainly impacted by volume decline. Given the gas price decline and cost cuts taken by the company, we expect EBITDA margins to expand 120 bps QoQ to 15.9%. Overall, we expect the bottomline to see a decline of ~40% YoY to ₹ 55.8 crore as base quarters had some tax benefits. The PBT decline expected is ~12% YoY. **Key Monitorables**: Management commentary on sector outlook, commentary on gas pricing and product pricing dynamics in the industry

Source: Company, ICICI Direct Research

Exhibit 3: Real Estate Coverage Universe

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Oberoi Realty (OBEREA)	389	410	Hold	14,144	19.0	7.6	17.0	20.5	51.2	22.9	11.3	23.0	12.0	1.5	1.5	1.0	7.9	3.1	6.6
The Phoenix Mills (PHOMIL)	565	725	Buy	9,701	21.9	4.0	25.3	25.8	141.3	22.3	14.2	24.7	13.1	2.6	2.5	2.3	8.8	1.6	9.3
Brigade Enterprises (BRIENT)	162	180	Buy	3,352	6.4	-1.8	7.3	25.4	NM	22.2	9.9	13.7	5.7	1.3	1.3	1.3	5.7	NM	6.3
Kajaria Ceramics (KAJCER)	535	425	Hold	8,498	16.1	9.7	15.8	33.2	55.1	33.8	15.3	19.9	13.9	15.3	19.9	13.9	14.9	8.4	12.4

Source: Company, Bloomberg, ICICI Direct Research

Exhibit 4: Estimates for Q2FY21E: (Roads & Construction) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ
Ashoka Buildcon	674.0	-18.0	17.8	84.3	-31.4	2.9	58.3	-19.8	-14.3
PNC Infratech	1,017.1	-13.8	12.4	134.6	-47.7	12.4	66.0	-68.1	9.7
NCC	1,645.3	-5.0	39.6	197.4	-15.3	70.7	46.9	-41.5	176.7
KNR Construction	530.0	-3.0	10.6	100.5	-20.1	6.5	41.5	-40.8	4.3
Total	**3,866.4**	**-9.7**	**23.3**	**516.8**	**-30.1**	**25.6**	**212.6**	**-50.5**	**15.0**

Source: Company, ICICI Direct Research

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

Company	Remarks
Ashoka Buildcon	While we expect ABL to report strong QoQ improvement in execution post easing of lockdowns and improved labour availability (~90-95% in July), sub-optimal execution efficiency amid extended monsoon will keep the topline weak YoY. Hence, we expect revenues to decline 18% YoY to ₹ 674 crore in Q2FY21E. EBITDA margins are expected to contract 240 bps YoY to 12.5%. We expect PAT to de-grow 20% YoY to ₹ 58.3 crore on account of topline and margin pain. **Key Monitorable**: Management commentary on execution ahead and status on monetisation of Ashoka Concessions
NCC Ltd	We expect removal of lockdown and benign base to result in a relatively resilient quarter for NCC, notwithstanding extended monsoon and lower labour availability. We expect topline to de-grow 5% YoY to ₹ 1645 crore. EBITDA margins are expected to contract 150 bps YoY to 12% due to negative operating leverage. NCC booked ₹ 44.2 crore in 'other income' as profit against sale of land and made provisions worth ₹ 16.5 crore for impairment of investment in Q2FY20. Therefore, reported PAT is expected to decline 41.5% YoY to ₹ 46.9 crore. **Key Monitorable**: Management commentary on order inflows, execution, status on Andhra Pradesh orders, receivables and net debt
PNC Infratech	PNC's performance will be impacted partially by heavy monsoon. We expect reported topline decline of ~13.8% to ₹ 1017 crore Adjusted for one-off, ₹ 109.5 crore as arbitration claim for Hapur-Moradabad project in the base quarter, decline is modest 5% YoY. EBITDA margins are expected at 13.2%, down 60 bps YoY on an adjusted basis. PAT is expected to de-grow ~68% YoY to ₹ 66 crore given the one-offs in base quarter. **Key Monitorable**: Management commentary on order inflows, progress on HAM projects
KNR Constructions	KNR's revenue weakness impact is expected to be the least owing to decent execution in the irrigation project. Hence, we expect revenues to de-grow 3% YoY to ₹ 530 crore (up 1% on an adjusted basis as base quarter had ₹ 21.8 crore interest income on arbitration claim in the topline), EBITDA margin is expected to contract 70 bps YoY to 19%, on adjusted basis. Overall, we expect bottomline to decline 40.8% YoY to ₹ 41.5 crore, given the one-offs and lower tax in base quarter. **Key Monitorable**: Status on HAM projects

Source: Company, ICICI Direct Research

Exhibit 6: Road Coverage Universe

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
KNR Constructions (KNRCON)	250	300	Buy	3,510	16.0	12.8	17.5	15.6	19.5	14.3	7.7	9.3	6.9	2.3	2.0	1.8	13.9	10.0	12.1
PNC Infratech (PNCINF)	165	200	Buy	4,237	17.9	11.2	16.2	9.2	14.7	10.2	5.1	7.3	5.4	1.7	1.6	1.4	18.1	10.2	12.8
Ashoka Buildcon (ASHBUI)	62	70	Hold	1,729	8.8	-4.6	6.3	7.0	NM	9.8	4.4	5.3	4.6	3.0	3.8	2.8	40.0	NM	26.5
NCC (NAGCON)	31	35	Hold	1,906	6.3	3.5	5.0	5.0	8.9	6.2	3.4	4.2	3.7	0.4	0.4	0.3	7.5	4.0	5.4

Source: Company, ICICI Direct Research, Reuters

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Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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