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Stable execution likely for EPC companies...

We expect stable execution for construction companies despite a seasonally weak quarter due to monsoon amid healthy order book. New order inflows, however, have remained muted. For real estate companies, sales volume growth is likely to be stable QoQ. Commercial leasing is expected to see a marked pick-up while malls, hospitality segment are expected to be robust, with consumption showing a healthy uptick.

Residential sales volumes to be healthy despite seasonality...

We anticipate residential sales momentum will remain healthy amid sustained demand and new launch offtake. According to Anarock, real estate sales across India's top seven markets recorded QoQ growth of 4% during Q2FY23 at 88230 units, boosted by an improvement in homeownership sentiment post pandemic and despite increase in home loan rates. For Brigade, we expect sales volumes to be flattish QoQ at 12 lakh sq ft, despite weak seasonality, driven by strong offtake from launches during the quarter. For, Oberoi Realty, sales bookings are expected at ~4 lakh sq ft area during Q2FY23, flattish QoQ. Mall activity has been strong with Phoenix Mills' Q2FY23 like to like malls consumption at 118% of Q1FY20. Hospitality is likely to show a strong recovery with occupancies firm and ARR's inching up.

For Kajaria, we expect tiles sales volumes to witness muted growth of ~4% YoY on a high base. We expect overall revenues to grow ~15% YoY to ₹ 1123 crore, also aided by ~11% YoY realisations growth on account of price hikes taken to combat gas prices. We expect EBITDA margins of 15%, down 350 bps YoY, owing to higher gas prices.

Stable execution; order inflows muted...

Order inflows across the construction universe have remained muted during Q2FY23. At industry level, MoRTH in the road space has awarded, constructed 2,706 km, 2,912 km, respectively, in April-August 2022 (vs. 3,261 km, 3,355 km, respectively, in April-August 2021). Intake for coverage companies post Q1FY23 was at a) Ashoka Buildcon (won orders totalling ~₹ 1,880 crore), b) NCC (declared jobs amounting to ₹ 2,330 crore) and c) PSP projects (secured orders worth ~₹ 962 crore). However, major developers such as KNR Constructions, PNC Infratech, HG Infra, and GR Infraprojects failed to attract any major order inflows amid heightened competitive intensity and their conservative approach on margins.

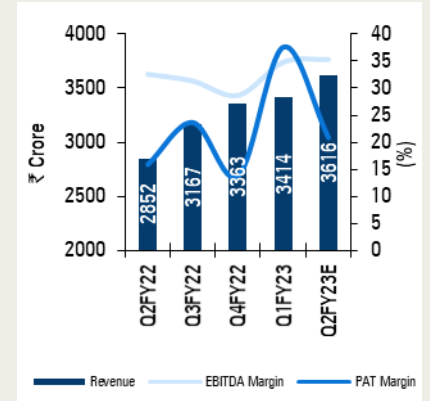
On the execution front, we expect our road & construction universe to witness 15.4% YoY growth in topline (to ₹ 9,604.5 crore) backed by companies' elevated order book position and pick-up in execution with receipt of appointed date in most projects. However, EBITDA margin of our universe is expected to moderate to ~12.9% (down 135 bps YoY) due to a change in project mix and higher raw material prices. With these, our universe PAT is expected to be flattish YoY at ₹ 698 crore.

Exhibit 1: Estimates for Q2FY23E: (Real Estate & Building Material) (₹ crore)

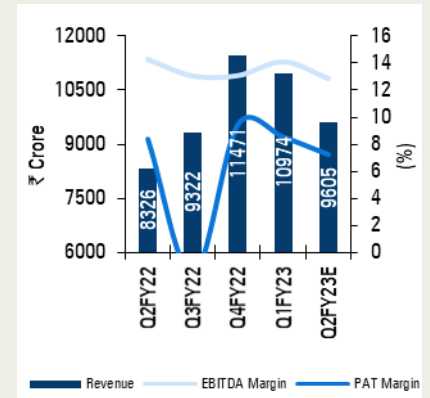
Company	Revenue			EBITDA			PAT		
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
Oberoi Realty	944.0	25.2	3.4	509.0	36.4	3.4	400.0	50.0	-0.8
Brigade Enterprises	930.0	23.6	3.0	254.1	33.5	9.2	94.1	682.1	20.7
The Phoenix Mills	619.0	66.7	7.8	348.0	86.8	7.8	158.8	166.9	-77.9
Kajaria Ceramics	1,123.4	15.4	9.7	168.4	-6.7	17.5	102.9	-11.4	21.4
Total	3,616.4	26.8	5.9	1,279.5	37.5	7.4	755.7	66.4	-41.2

Source: Company, ICICI Direct Research

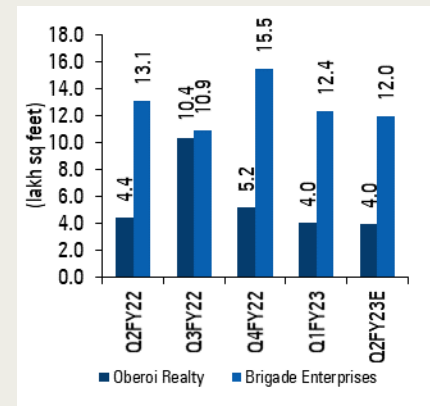
Topline & Profitability (Real Estate Universe)



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	With no launch during the quarter, we expect Oberoi Realty to clock sales bookings of ~4 lakh sq ft area during Q2FY23, flattish QoQ. On the financial front, we expect topline to grow ~25% YoY to ₹ 944 crore, on a benign base. Overall, we expect ORL net income to be up 50% YoY at ₹ 400 crore, given healthy revenue recognition. Key Monitorable Commentary on sales volumes momentum especially Worli, Thane launch
The Phoenix Mills	Phoenix Mills in its quarterly operational update shared that retail consumption during Q2FY23 was at ₹ 2,197.7 crore (130% of Q2 FY20). Excl. Palassio's contribution, Q2FY23 consumption was 118% of Q1FY20. Occupancy level for St Regis, Marriott (Agra) was at 85%, 68% respectively while average room rentals (ARR) were at ₹ 13,269, ₹ 3,709 in September 2022, respectively. Leasing traction remained strong with ~1 lakh sq ft of new leasing in H1FY23. Thus, we expect Phoenix Mills' revenues to grow 66.7% YoY to ₹ 619 crore. At the PAT level, we expect ₹ 158.8 crore, up 167% YoY. Key Monitorable: Outlook on business ahead and any new asset addition
Brigade Enterprises (BEL)	We expect BEL's sales volumes to be flattish QoQ at 12 lakh sq ft despite weak seasonality, driven by strong offtake from launches during the quarter. On the financial front, we expect the topline to grow 23.6% YoY to ₹ 930 crore, driven by healthy revenue recognition in residential segment, along with recovery in hospitality and mall portfolio performance. Overall, at the PAT level, we expect ₹ 94 crore, vs. ₹ 12 crore in the base quarter. Key Monitorable: Sales volume and outlook ahead
Kajaria Ceramics	We expect tiles sales volumes to witness muted growth of ~4% YoY on a high base. We expect overall revenues to grow ~15% YoY to ₹ 1123 crore, also aided by ~11% YoY realisations growth on account of price hikes taken to combat gas prices. We expect EBITDA margins of 15%, down 350 bps YoY, owing to higher gas prices. We expect the bottomline at ₹ 102.9 crore, (down ~11.4% YoY). 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 (%)				
	(₹)	TP(₹)		Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
Oberoi Realty (OBBEREA)	895	890	Hold	32,526	28.8	30.4	40.6	31.1	29.5	22.0	25.6	21.1	13.9	3.1	2.9	2.6	7.8	7.9	11.1
The Phoenix Mills (PHOMIL)	1,394	1,630	Buy	24,876	13.3	68.4	47.0	104.8	20.4	29.6	36.6	18.6	14.8	3.8	3.2	2.9	3.6	8.6	9.9
Brigade Enterprises (BRIENT)	492	595	Buy	11,331	3.6	9.0	10.7	137.0	54.9	45.9	19.2	15.1	12.3	3.9	3.7	3.6	2.8	6.8	7.9
Kajaria Ceramics (KAJCER)	1,125	1,250	Buy	17,909	23.7	27.5	34.8	47.4	41.0	32.3	28.8	25.2	20.3	8.4	7.7	6.8	17.8	18.8	21.1

Source: Company, Bloomberg, ICICI Direct Research

Exhibit 4: Estimates for Q2FY23E: (Roads & Construction) (₹ crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
Ashoka Buildcon	1,183.2	29.0	-20.0	118.3	12.1	-18.2	84.1	-12.0	-19.4			
PNC Infratech	1,631.5	1.0	-7.2	212.2	-4.3	-17.7	129.7	-4.2	-22.1			
HG Infra	862.1	15.0	-19.1	131.9	8.3	-18.8	74.9	7.3	-23.3			
NCC	2,748.8	25.0	-7.1	269.4	13.8	-4.2	105.8	1.4	-11.8			
KNR Constructions	808.5	7.0	-9.2	149.6	-10.7	-9.3	88.9	-6.6	-11.8			
GR Infra	1,956.6	15.1	-21.0	303.3	9.1	-37.7	181.5	11.3	-43.5			
PSP Projects	413.9	6.0	19.9	53.8	-1.7	14.2	33.1	-9.6	16.1			
Total	9,604.5	15.4	-12.5	1,238.4	4.4	-19.8	698.0	-0.3	-25.7			

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 29% YoY (to ₹ 1,183.2 crore) to be driven by a pick-up in execution and comfortable order book position. However, its EBITDA margin is likely to moderate to 9.9% (down 161 bps YoY) due to rise in input cost, change in project mix and bagging of projects at lower margin to enter newer geographies/sectors. Consequently, we expect PAT to decline 12% YoY to ₹ 84.1 crore. Key Monitorable: Management commentary on execution ahead, and progress on asset monetisation and net debt
HG Infra	Revenue during Q2FY23 is likely to improve 15% YoY (to ₹ 862.1 crore) to be driven by its comfortable order book position and pick-up in execution with receipt of appointed date in most projects. However, operating margin is likely to moderate to 15.3% with higher input prices (vs. 16.3% in Q2FY22). Consequently, we expect bottomline to improve by 7.3% on YoY basis (to ₹ 74.9 crore). Key monitorable: Management commentary on order inflows, updates on key projects and monetisation
NCC Ltd	We expect topline to grow 25% YoY to ₹ 2,748.8 crore, on a benign base, with a pick-up in execution pace and bloated order book position. However, its operating margin is likely to moderate to 9.8% (down 100 bps YoY) due to change in project mix and elevated raw material cost. With muted margin performance, PAT is likely to be muted with 1.1% growth on a YoY basis (to ₹ 105.8 crore). Key monitorable: Management commentary on order inflows, competitive intensity, status on Andhra Pradesh orders, receivables and net debt
PNC Infratech	PNC's topline is likely to be muted YoY with 1% growth at ₹ 1,631.5 crore (on higher base; reported 53.3% growth in base quarter) with some impact of heavy monsoon on execution. However, its EBITDA margin is likely to remain at its normalised level (at 13%) backed by better project mix. Consequently, PAT is expected to decline 4.2% YoY (to ₹ 129.7 crore) due to benign operating performance. Key Monitorable: Management commentary on execution of HAM and water supply projects, and update on asset monetisation plans
KNR Constructions	We expect 7% improvement in topline (to ₹ 808.5 crore) on a YoY basis with watchful execution in certain irrigation projects. Additionally, its 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 decline 6.6% YoY (to ₹ 88.9 crore) due to benign operating performance. Key Monitorable: Management commentary on order inflows, progress on key HAM and irrigation projects, update on pending dues
GR Infraprojects	Revenue during Q2FY23 is likely to improve 15% YoY (to ₹ 1956 crore) with a pick-up in execution backed by comfortable executable order book position. However, EBITDA margin is expected to moderate to 15.5% (down 85 bps YoY) due to a change in project mix with higher contribution from EPC projects. Consequently, PAT is expected to improve 11.3% YoY (to ₹ 181.5 crore). Key Monitorable: Management commentary on order inflows, expected receipt of appointed date, execution ahead, and progress on InVIT
PSP Projects	Topline during Q2FY23 is likely to improve 6% YoY/19.9% QoQ (to ₹ 413.9 crore) to be driven by its elevated order book position and pick-up in execution with normalised labour situation. Operating margin may remain at its normalised level of ~13%. However, higher depreciation and interest costs to translate into 9.6% decline in PAT (to ₹ 33.1 crore). Key monitorable: Update on execution of key projects, labour situation and order inflows target

Source: Company, ICICI Direct Research

Exhibit 6: Infra Coverage Universe

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	₹	TP(₹)	Rating		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY23E	FY24E	
KNR Constructions (KNRCON)	226	310	Buy	6,360	13.6	13.2	17.5	16.7	17.1	12.9	8.9	9.8	7.6	2.8	2.4	2.1	16.1	14.3	16.0
PNC Infratech (PNCINF)	265	350	Buy	6,795	17.5	20.9	24.6	15.2	12.7	10.8	8.2	7.2	6.2	2.0	1.8	1.5	13.4	13.9	14.1
Ashoka Buildcon (ASHBUI)	77	80	Hold	2,164	-11.0	13.5	14.7	NM	5.7	5.2	5.1	5.4	4.7	0.8	0.7	0.6	NM	12.3	11.8
NCC (NAGCON)	72	75	Hold	4,363	8.0	7.1	8.1	8.9	10.1	8.8	5.1	5.0	4.6	0.8	0.7	0.7	5.9	7.2	7.8
HG Infra (HGINF)	573	765	Buy	3,733	52.0	61.0	68.4	11.0	9.4	8.4	6.8	6.1	5.3	2.7	2.1	1.7	24.8	22.7	20.3
GR Infra (GRINFR)	1,218	1,620	Buy	11,777	78.7	79.0	97.2	15.5	15.4	12.5	9.9	9.6	8.1	2.7	2.3	2.0	17.5	15.0	15.8
PSP Projects (PSPPRO)	649	760	Buy	2,338	45.1	42.5	50.6	14.4	15.3	12.8	8.8	9.1	7.6	3.4	2.9	2.4	23.7	18.9	19.0

Source: Company, ICICI Direct Research, Reuters

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