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Healthy quarter for EPC companies...

We expect healthy execution for most construction companies on a YoY basis amid decent order book. New order inflows, however, have shown mixed trends. For real estate companies, sales volume growth is likely to be strong QoQ, led by launches. Commercial leasing as well as malls and hospitality segment is expected to be robust, with consumption staying healthy.

Residential sales volumes to be healthy...

We anticipate residential sales momentum will remain healthy amid sustained demand, new launch offtake and despite rate hikes. According to Anarock, residential real estate sales across India's top seven markets have recorded YoY, QoQ growth of 1.5%, 4.5%, respectively, in Q3FY23 at 92160 units. For Brigade, we expect sales volumes to be up 19% YoY, 9% QoQ at 13 lakh sq ft, driven by strong offtake from launches during the quarter. Sales value at ~₹ 880 crore is likely to be up 28.6% YoY. With a tower at Sky City, Borivali launched during Q3, we expect Oberoi Realty to clock healthy sales bookings of ~4.7 lakh sq ft area during Q2FY23, up ~27% QoQ with sales value of ~₹ 1150 crore. Mall activity has been strong with Phoenix Mills' Q3FY23 malls consumption at 128% of Q3FY20. Hospitality is likely to show a strong recovery with occupancies firm and ARRs 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.

Pick up in execution; order inflows trend mixed...

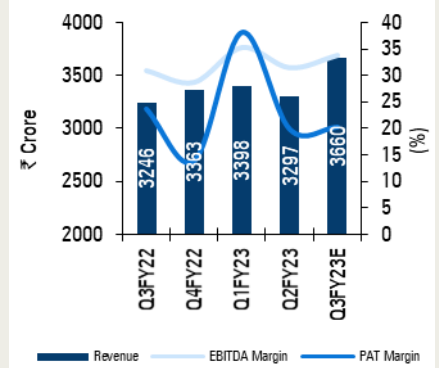
Order inflows across the construction universe were a mixed bag. **Intake for coverage companies in Q3FY23 was at a) HG Infra (won orders totalling ~₹ 1,409 crore), b) NCC (declared jobs amounting to ₹ 5330 crore), and c) PSP projects (secured orders worth ~₹ 2045 crore).** However, major developers such as KNR Constructions, PNC Infratech and GR Infraprojects failed to attract any major order inflows owing to relatively lower ordering by NHAI and amid their conservative approach on margins.

On the execution front, we expect our road & construction universe to witness 13.8% YoY growth in topline (to ₹ 9,349 crore) backed by elevated order book position of companies and pick-up in execution with receipts of appointed date in most projects. We expect all companies (barring GR Infra) to report double digit YoY revenue growth. The EBITDA margin of our universe is expected to be stable at 13.2%. With these, our universe PAT is expected to grow 25.7% YoY to ₹ 676 crore.

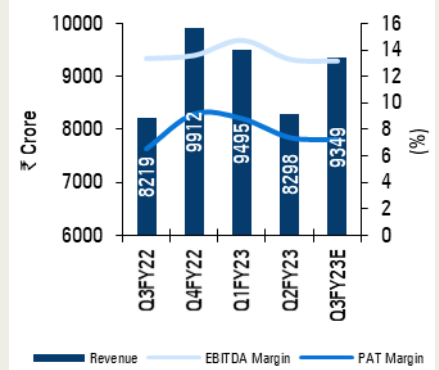
Company	Revenue			EBITDA			PAT		
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Oberoi Realty	896.3	7.7	30.2	425.1	28.2	36.9	371.0	-20.6	16.5
Brigade Enterprises	940.0	2.1	6.9	252.4	-2.0	16.6	82.0	4.6	5.8
The Phoenix Mills	696.9	64.0	7.0	403.9	75.2	6.0	193.0	95.2	3.9
Kajaria Ceramics	1,126.6	5.5	4.5	157.5	-14.3	21.7	94.0	-23.0	34.6
Total	3,659.9	12.7	11.0	1,238.9	23.5	19.5	740.0	-3.5	13.5

Source: Company, ICICI Direct Research

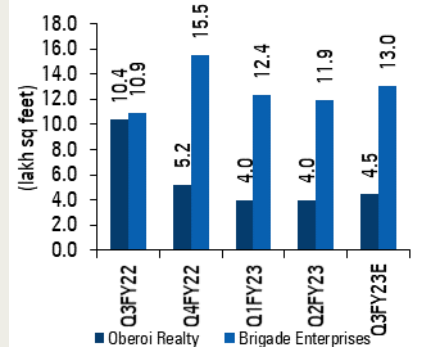
Topline & Profitability (Real Estate Universe)



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 a tower at Sky City, Borivali launched during Q3, we expect Oberoi Realty to clock healthy sales bookings of ~4.7 lakh sq ft area during Q2FY23, up ~27% QoQ with sales value of ~₹ 1150 crore. On the financial front, we expect topline to grow ~7.7% YoY to ₹ 940 crore. Overall, we expect ORL's net income at ₹ 371 crore. 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 Q3FY23 was at ₹ 2,450.2 crore (128% of Q3FY20). On a like to like basis, Q2FY23 consumption was 104% of Q3FY20. Occupancy level for St Regis, Marriott (Agra) was at 81%, 80%, respectively, while average room rentals (ARR) were at ₹ 17162, ₹ 6.539 in December 2022, achieving highest all time gross revenues in December, 2022. Leasing traction remained strong with ~0.5 lakh sq feet of new leasing in Q3FY23. Thus, we expect revenues to grow 64% YoY to ₹ 697 crore. At the PAT level, we expect ₹ 193 crore, up 95.2% YoY. Key Monitorable: Outlook on consumption trends and business development activities
Brigade Enterprises	We expect BEL's sales volumes to be up 19% YoY, 9% QoQ at 13 lakh sq ft, driven by strong offtake from launches during the quarter. The sales value at ~₹ 880 crore is likely to be up 28.6% YoY. On the financial front, we expect the topline to grow 2.1% YoY to ₹ 940 crore, on a high base. Overall, at the PAT level, we expect ₹ 82 crore, up 4.6% YoY. Key Monitorable: Sales volume and outlook ahead
Kajaria Ceramics	We expect tiles sales volumes to be flattish YoY on a high base, owing to some demand softness. We expect overall revenues to grow ~5.5% YoY to ₹ 1126.6 crore, aided by ~5.4% YoY realisations growth in tiles on account of price hikes taken to combat gas prices. We expect EBITDA margins of 14%, up 200 bps QoQ (albeit lower YoY), on account of alternate fuel use. We expect the bottomline at ₹ 94 crore, (down ~23% YoY but up ~34.6% QoQ led by margins improvement sequentially). 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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Oberoi Realty (OBBEREA)	850	Hold	30,915	28.8	34.1	46.7	29.5	24.9	18.2	24.3	19.1	12.0	3.0	2.7	2.4	7.8	8.1	11.7
The Phoenix Mills (PHOMIL)	1,430	Buy	25,528	13.3	68.9	47.3	107.5	20.7	30.2	37.5	18.8	15.1	3.9	3.3	3.0	3.6	8.7	9.9
Brigade Enterprises (BRIENT)	448	Buy	10,316	3.6	12.4	13.7	124.6	36.1	32.7	17.9	13.7	11.2	3.5	3.3	3.1	2.8	9.0	9.4
Kajaria Ceramics (KAJGER)	1,138	Buy	18,101	23.7	23.4	33.5	48.0	48.7	34.0	29.1	28.8	21.3	8.5	7.9	7.0	17.8	16.1	20.5

Source: Company, Bloomberg, ICICI Direct Research

Exhibit 4: Estimates for Q3FY23E: (Roads & Construction) (₹ crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
PNC Infratech	1,750.3	15.0	12.1	227.1	37.3	9.7	145.1	79.3	10.7			
HG Infra	1,107.0	20.0	47.2	177.0	16.4	46.6	104.5	17.6	61.7			
NCC	3,191.0	18.0	6.2	318.0	8.6	10.1	123.0	35.2	1.0			
KNR Constructions	843.0	10.0	-0.5	155.7	-2.0	-17.5	90.7	-10.0	-15.7			
GR Infra	1,850.0	1.7	4.1	277.0	8.7	6.5	160.0	24.1	-2.6			
PSP Projects	608.0	25.2	70.5	77.0	4.0	99.5	52.5	11.9	129.0			
Total	9,349.3	13.8	12.7	1,231.8	12.2	11.6	675.8	25.7	10.4			

Source: Company, ICICI Direct Research

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

Company	Remarks
HG Infra	Revenue during Q3FY23 is likely to improve 20% YoY (to ₹ 1107 crore) to be driven by its comfortable order book position and pick-up in execution with receipts of appointed date in most projects. The operating margin is likely to be stable YoY at 16%. Consequently, we expect bottomline to improve 17.6% YoY (to ₹ 104.5 crore). Key Monitorable: Management commentary on order inflows, updates on key projects and monetisation
NCC Ltd	We expect topline to grow 18% YoY to ₹ 3191 crore, with a pick-up in execution pace and robust order book position. However, its operating margin is likely to improve by 40 bps QoQ to 10% (down 80 bps YoY) with easing raw material cost, sequentially. PAT is likely to witness 35% growth on a YoY basis (to ₹ 123 crore). Key Monitorable: Management commentary on status on Andhra Pradesh orders, receivables and net debt
PNC Infratech	PNC's topline is likely to be robust YoY with 15% growth at ₹ 1,750.3 crore with a pick-up in execution. The EBITDA margin is likely to remain at its normalised level (at 13%, up 210 bps YoY on reported basis but flattish on adjusted basis). Consequently, PAT is expected to grow 79.3% YoY (to ₹ 145.1 crore) on a reported basis as the base quarter had one-time impairment. PAT is expected to grow ~21% YoY, on adjusted basis. Key Monitorable: Management commentary on execution of HAM and water supply projects and update on asset monetisation plans
KNR Constructions	We expect ~10% growth in topline (to ₹ 843 crore) on a YoY basis, largely driven by road segment and 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 10% YoY (to ₹ 90.7 crore). Key Monitorable: Management commentary on order inflows, progress on key HAM and irrigation projects, update on pending dues
GR Infraprojects	Revenue during Q3FY23 is likely to be muted (up 1.7% YoY) to ₹ 1850 crore due to depleted executable order book position. However, EBITDA margin is expected to improve to 15% (up 100 bps YoY) with raw material cost easing along with project mix. Consequently, PAT to improve ~24% YoY (to ₹ 160 crore). Key Monitorable: Management commentary on order inflows and progress on InVIT
PSP Projects	Topline during Q3FY23 is likely to grow ~25% YoY (to ₹ 608 crore) to be driven by its elevated order book position and pick-up in execution. Operating margin is expected to remain at its normalised level of ~12.7%. PAT is expected to grow ~12% YoY to ₹ 52.5 crore. Key Monitorable: Update on execution of key projects and order inflows target

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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E
KNR Constructions (KNRCON)	257	Buy	7,237	13.6	13.6	16.8	19.0	18.9	15.3	10.2	10.8	8.9	3.2	2.8	2.4	16.1	14.6	15.4
PNC Infratech (PNCINF)	315	Buy	8,076	17.5	21.2	24.7	18.0	14.9	12.8	9.9	8.7	7.6	2.4	2.1	1.8	13.4	14.0	14.1
NCC (NAGCON)	94	Buy	5,924	5.6	8.0	9.6	16.7	11.8	9.8	6.4	5.7	5.1	1.0	1.0	0.9	5.9	8.1	9.0
HG Infra (HGINF)	678	Buy	4,422	52.0	58.3	67.3	13.1	11.6	10.1	8.0	7.5	6.4	3.2	2.5	2.0	24.8	21.9	20.2
GR Infra (GRINFR)	1,236	Buy	11,949	78.7	79.9	96.1	15.7	15.5	12.9	9.4	9.3	7.8	2.7	2.3	2.0	17.5	15.2	15.6
PSP Projects (PSPPRO)	715	Buy	2,573	45.1	41.4	51.6	15.8	17.3	13.9	9.7	10.3	8.4	3.8	3.2	2.7	23.7	18.5	19.4

Source: Company, ICICI Direct Research, Reuters

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