

April 11, 2023

Order inflows witness uptick for EPC companies...

New order inflows witnessed a healthy trend in Q4FY23. We expect decent execution for construction companies on a YoY basis. For real estate companies, sales volume growth is likely to be healthy, led by launches. The commercial leasing as well as malls and hospitality segment will be robust, with consumption remaining healthy.

Real sales volumes trend to be mixed bag...

According to Anarock, real estate sales across India's top seven markets recorded YoY growth of ~14% during Q4FY23 at 113770 units. We anticipate residential sales momentum will remain healthy amid sustained demand and new launch offtake and despite rate hikes. However, the trend will be mixed led by respective player new launch momentum. For Brigade, we expect sales volumes to be up 16% YoY, 17% QoQ at 18 lakh sq ft, driven by strong offtake from launches during the quarter. The sales value at ~₹ 1186 crore is likely to be up ~15% YoY. With no major launch during Q4, we expect Oberoi Realty to clock sales bookings of ~3.9 lakh sq ft area during Q4FY23, down ~25% QoQ with sales value of ~₹ 880 crore. The mall activity has been strong with Phoenix Mills' witnessing ~13% YoY growth in consumption in March. 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 ~2% YoY on a high base and amid soft demand. We expect overall revenues to grow ~3.9% YoY to ₹ 1144 crore. We expect EBITDA margins of 14%, up 180 bps QoQ, on account of lower gas prices and alternate fuel use.

Order inflow improves; execution decent

Order inflows across the construction universe were healthy. Intake for coverage companies in Q4FY23 was at a) HG Infra (won orders totalling ~₹ 3000 crore), b) NCC (declared jobs amounting to ₹ 6048 crore), c) GR Infra projects (secured orders worth ~₹ 13000 crore), d) KNR (three road projects worth ~₹ 2000 crore) and e) PNC (won orders worth ~₹ 4000 crore). We also highlight that road orders worth ₹ 40000 crore could not be awarded in March, 2023 and were likely to be awarded in April/May, 2023.

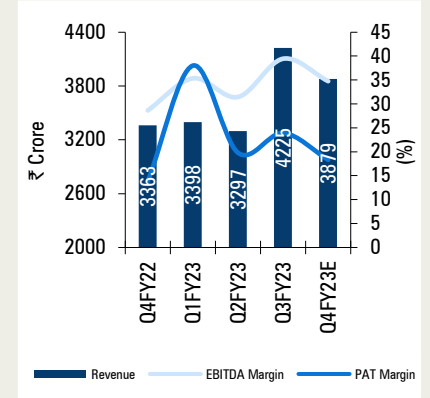
On the execution front, we expect our road & construction universe to witness 13.6% YoY growth in topline (to ₹ 11,258 crore) backed by companies elevated order book position and pick-up in execution. HG Infra, PSP Project and NCC are expected to lead the growth in Q4FY23. The EBITDA margin of our universe is expected to be stable at 13.5%.

Exhibit 1: Estimates for Q4FY23E: (Real Estate & Building Material) (₹ crore)

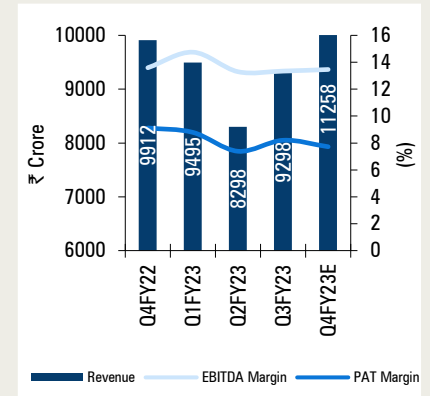
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Oberoi Realty	1,118.3	35.8	-31.4	538.9	53.2	-42.7	373.3	60.7	-46.9			
Brigade Enterprises	924.2	-1.9	12.7	255.8	24.7	23.0	72.9	124.4	28.1			
The Phoenix Mills	692.3	39.7	1.2	392.8	62.9	2.2	165.2	57.7	-6.3			
Kajaria Ceramics	1,144.3	3.9	4.9	160.7	-3.2	20.8	98.3	2.6	32.2			
Total	3,879.1	15.3	-8.2	1,348.1	39.9	-19.1	709.7	52.5	-29.7			

Source: Company, ICICI Direct Research

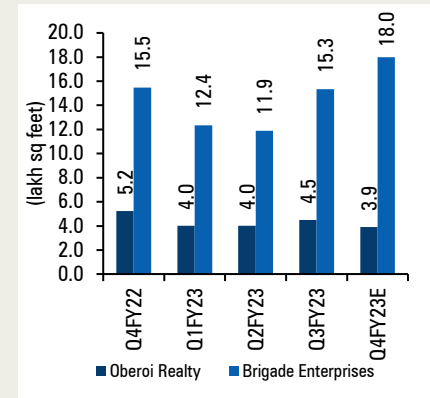
Topline & Profitability (Real Estate Universe)



Topline & Profitability (Infra Universe)



Real estate sales volume trend



Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

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

Company	Remarks
Oberoi Realty	<p>With no major launch during the quarter, we expect Oberoi Realty to witness sales bookings of ~3.9 lakh sq ft area during Q4FY23, down ~25% YoY with sales value of ~₹ 880 crore. On the financial performance front, we expect topline to grow ~35.8% YoY to ₹ 1114 crore. Overall, we expect ORL net income at ₹ 373 crore.</p> <p>Key Monitorable: Commentary on sales volumes momentum especially Worli, Thane launch</p>
The Phoenix Mills	<p>Phoenix Mills, in its quarterly operational update, shared that retail consumption during Q4FY23 was at ₹ 2,205.5 crore (159% of Q4FY20). On a like to like basis, FY23 consumption was 123% of pre-Covid consumption. Occupancy level for St Regis averaged ~84% across Q4. In the residential space, strong sales momentum continued backed by strong demand and faster conversions, with gross residential sales of ₹ 192 crore and collections of ~₹ 137 crore during Q4FY23. Commercial segment saw new leasing of 1.31 lakh sq ft in Q4.. Thus, we expect Phoenix Mills' revenues to grow 39.4% YoY to ₹ 725 crore. At the PAT level, we expect ₹ 165.2 crore, up 57.7% YoY</p> <p>Key Monitorable: Outlook on consumption trends and business development activities</p>
Brigade Enterprises	<p>We expect BEL's sales volumes to be up 16% YoY, 17% QoQ at 18 lakh sq ft, driven by strong offtake from launches during the quarter. The sales value at ~₹ 1186 crore is likely to be up 15% YoY. On the financial performance front, we expect the topline to decline 1.9% YoY to ₹ 924 crore, on a high base. At the PAT level, we expect ₹ 72.9 crore, up 124% YoY, given the higher commercial segment revenues (which has superior margins)</p>
Kajaria Ceramics	<p>We expect tiles sales volumes to be muted YoY (up ~2% YoY) owing to some demand softness and on a high base. We expect overall revenues to grow ~3.9% YoY to ₹ 1144 crore. We expect EBITDA margins of 14%, up 180 bps QoQ, on account of lower gas prices and alternate fuel use. We expect the bottomline at ₹ 98.3 crore, (up ~3% YoY).</p> <p>Key Monitorables: Management commentary on demand outlook and gas prices</p>

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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	
Oberoi Realty (OBBEREA)	902	Hold	32,797	28.8	45.2	54.0	31.3	20.0	16.7	27.1	15.6	11.3	3.1	2.8	2.4	7.8	11.7	13.7	
The Phoenix Mills (PHOMIL)	1,287	Buy	22,979	13.3	69.8	45.5	96.8	18.4	28.3	35.9	18.5	15.0	3.5	3.0	2.7	3.6	8.9	9.5	
Brigade Enterprises (BRIENT)	483	Buy	11,122	3.6	12.4	14.4	134.4	38.9	33.6	19.0	15.5	11.5	3.8	3.5	3.3	2.8	8.9	9.7	
Kajaria Ceramics (KAJGER)	1,105	Buy	17,570	23.7	21.2	31.4	46.6	52.0	35.2	28.7	30.3	22.0	8.3	7.5	6.7	17.8	14.5	18.9	

Source: Company, Bloomberg, ICICI Direct Research

Exhibit 4: Estimates for Q4FY23E: (Roads & Construction) (₹ crore)

Company	Revenue			EBITDA			PAT		
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
PNC Infratech	2,018.4	5.3	24.1	267.4	19.0	28.5	169.4	22.6	30.9
HG Infra	1,446.0	40.9	27.8	226.0	44.1	19.0	140.2	53.9	25.2
NCC	3,698.5	18.0	11.6	396.0	48.3	13.5	170.3	-30.0	13.6
KNR Constructions	1,020.0	0.9	22.9	189.0	-9.1	21.1	113.0	0.2	-30.2
GR Infra	2,275.2	0.3	19.8	336.8	-16.4	21.7	212.7	-19.8	22.1
PSP Projects	800.0	44.1	60.8	100.8	14.4	63.5	63.1	17.3	78.8
Total	11,258.1	13.6	21.1	1,516.0	12.5	22.1	868.6	-3.9	13.9

Source: Company, ICICI Direct Research

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

Company	Remarks
HG Infra	Revenue during Q4FY23 is likely to improve ~41% YoY (to ₹ 1107 crore) to be driven by its strong order book position and pick-up in execution. The operating margin is likely to be stable (up 30 bps YoY) at 15.8%. Consequently, we expect bottomline to improve 54% on YoY basis (to ₹ 140.2 crore) Key monitorable: Management commentary on order inflows, updates on key projects and asset monetisation
NCC Ltd	We expect the topline to grow 18% YoY to ₹ 3698 crore, with a pick-up in execution pace and robust order book position. Furthermore, its operating margin is likely to improve 220 bps YoY to 10% (up 20 bps QoQ) with easing raw material cost. Adjusted PAT is likely to witness 56.7% growth on YoY basis (to ₹ 170.3 crore). Key monitorable: Management commentary on status of Andhra Pradesh orders, receivables and net debt
PNC Infratech	Topline is likely to be muted YoY with ~5% growth at ₹ 2018 crore. The EBITDA margin is likely to remain at its normalised level (at 13.2%, up 150 bps YoY on reported basis). Consequently, PAT is expected to grow 22.6% YoY (to ₹ 169.4 crore). Key Monitorable: Management commentary on execution of HAM and water supply projects and update on asset monetisation plans
KNR Constructions	We expect muted topline (up ~1% YoY) at ₹ 1020 crore, 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 be flat YoY at ₹ 113 crore Key Monitorable: Management commentary on order inflows, progress on key HAM and irrigation projects
GR Infraprojects	Revenue during Q4FY23 is likely to be muted (up 0.3% YoY) to ₹ 2275 crore due to depleted executable order book position. However, EBITDA margin is expected to decline 300 bps YoY on reported basis at 14.8%, as the company had recognised one-off bonuses and claims in the base year. On adjusted basis, EBITDA margin will be up 60 bps YoY. Consequently, PAT to decline ~20% YoY to ₹ 213 crore (up ~5% YoY on adjusted basis) Key Monitorable: Management commentary on order inflows and progress on InVIT
PSP Projects	Topline during Q4FY23 is likely to grow ~44% YoY (to ₹ 800 crore) to be driven by its elevated order book position and pick-up in execution. Operating margin to remain at its normalized level of ~12.6% (up 20 bps QoQ). PAT to grow ~17% YoY to ₹ 63.1 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 (₹ Cr)	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
KNR Constructions (KNRCON)	250	Buy	7,031	13.6	16.2	15.8	18.4	15.4	15.8	10.4	10.3	9.3	3.1	2.6	2.3	16.1	14.4	14.3
PNC Infratech (PNCINF)	288	Buy	7,388	17.5	23.2	26.3	16.5	12.4	10.9	10.4	8.9	7.8	2.2	1.9	1.6	13.4	15.2	14.7
NCC (NAGCON)	108	Buy	6,781	5.6	8.7	10.7	19.1	12.4	10.1	6.4	5.6	4.8	1.1	1.1	1.0	5.9	8.8	9.9
HG Infra (HGINF)	847	Buy	5,520	52.0	63.6	70.3	16.3	13.3	12.0	9.0	7.8	7.0	4.0	3.1	2.5	24.8	23.4	20.6
GR Infra (GRINFR)	1,010	Buy	9,766	78.7	89.6	91.5	12.8	11.3	11.0	8.3	7.9	7.4	2.2	1.9	1.6	17.5	16.7	14.7
PSP Projects (PSPPRO)	690	Buy	2,484	45.1	41.9	52.5	15.3	16.5	13.1	9.2	9.5	7.6	3.6	3.1	2.6	23.7	18.7	19.7

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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