

Decent performance amid challenging times...

PNC Infratech (PNC) reported a resilient Q4FY20 operating performance. Revenues grew 7.6% YoY to ₹ 1157.9 crore in Q4FY20. EBITDA margins at 13.5%, down 55 bps YoY, were better than our estimate of 13%. PAT came in at ₹ 76.1 crore (down 45.6% YoY) vs. expectation of ₹ 58.5 crore, with beat led by superior EBITDA. The decline in PAT on a YoY basis, was largely owing to ~₹ 66 crore reversal of tax paid in earlier years, in the base quarter (Q4FY19). On a PBT basis, the decline was modest 6.5% YoY.

Robust order book; Covid-19 to impact H1FY20 execution

PNC's order book (OB) was at ₹ 8,629 crore as of Q4FY20. The company, in its OB, has not included Challakere-Hariyur project (BPC: ₹ 1,157.0 crore; EPC cost: ₹ 935 crore) and four new HAM project that it won over the last four months. Including these projects, the order book is over ₹ 15000 crore, providing visibility of over three years. Given the strong bid pipeline, the company expects order inflows of ₹ 7000 primarily in EPC mode in rest of FY21E. We conservatively bake in ₹ 4000 crore of fresh order inflows in remainder of FY21. Given the uncertainty, the management refrained from revenue guidance for FY21. It indicated that construction efficiency is ~70-75% currently and full efficiency could resume only post monsoon. Overall, we expect revenues to decline by ~5% in FY21E, followed by ~20% growth in FY22E on a low base to ₹ 5,563 crore.

Funding of HAM equity to be met through internal accruals

PNC has infused ₹ 443 crore equity in its HAM projects by Q4FY20 and has a balance equity requirement of ₹ 405 crore, which would be invested in the next two years. Furthermore, the new HAM projects would entail equity requirement of ₹ 600 crore over the next three to three and a half years. It expects overall equity infusion schedule as: ₹ 280 crore in FY21E, ₹ 380 crore in FY22E and balance in FY23, FY24E. The company expects cash generation of ₹ 1700 crore, over the next three years from EPC business. Overall, with healthy internal cash accruals, and current net cash of ₹ 414 crore, the company can easily fund its remaining equity requirement.

Valuation & Outlook

PNC remains our preferred pick in the EPC space given its robust order book, comfortable working capital cycle, healthy return ratios and lean balance sheet. Notwithstanding near term hiccups on account of Covid-19, PNC is likely to tide over with resilient fundamentals. While monetisation of BOT/HAM assets could be delayed in near term, we do not see it as a major issue with sufficient internal accruals from current order book enough for equity infusion. Hence, we maintain our **BUY** rating on the stock with a revised SoTP target price of ₹ 175/share. We value its construction business at ₹ 137/share (at 4.5x FY22E EV/EBITDA implying 8.5x FY22 EPS).

Key Financial Summary

₹ crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR FY20-22E
Net Sales	1,856.6	3,096.9	4,877.9	4,640.8	5,563.0	6.8%
EBITDA	318.8	457.3	764.3	626.5	778.8	0.9%
EBITDA Margin (%)	17.2	14.8	15.7	13.5	14.0	
PAT	251.0	324.9	460.3	304.1	420.6	-4.4%
EPS (₹)	9.8	12.7	17.9	11.9	16.4	
P/E (x)	14.2	11.0	7.8	11.7	8.5	
EV/EBITDA (x)	11.1	8.0	4.1	5.6	4.4	
RoNW (%)	13.9	15.4	18.1	10.7	12.9	
RoCE (%)	13.7	16.4	25.3	16.1	18.2	

Source: Company, ICICI Direct Research



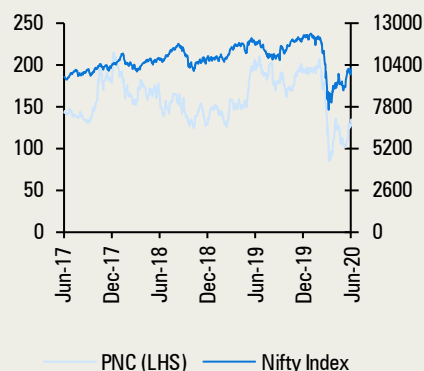
Particulars

Particular	Amount (₹ crore)
Market Cap	3,572.3
Total Debt	326.0
Cash	740.0
EV	3,158.3
52 week H/L (₹)	219 / 81
Equity capital	51.3
Face value	₹2

Key Highlights

- Standalone debt at ₹ 326 crore in Q4FY20. With cash of ₹ 740 crore, the company is net cash positive at standalone level
- Maintain BUY with revised target price of ₹ 175/share

Price Chart



Research Analyst

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Exhibit 1: Variance analysis

Particulars	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	1157.9	1092.5	1075.7	7.6	1218.0	-4.9	Topline beat on account of better than expected execution in first half of Q4 notwithstanding lockdown disruption, thereafter
Other Income	15.9	13.0	12.3	30.2	14.4	11.0	
Net Raw material consumed	822.5	758.9	734.2	12.0	846.0	-2.8	
Employee benefit expenses	62.3	76.5	54.4	14.6	85.3	-27.0	
Other Expenses	116.8	114.7	136.0	-14.1	115.4	1.2	
EBITDA	156.3	142.5	151.2	3.4	171.2	-8.7	
EBITDA Margin(%)	13.5	13.0	14.1	-55 bps	14.1	-56 bps	
Depreciation	32.4	33.0	28.2	14.7	32.6	-0.9	
Interest	31.6	40.1	19.4	63.1	40.1	-21.2	
PBT	108.3	82.3	115.8	-6.5	112.8	-4.0	
Taxes	32.2	23.9	-24.1	-233.5	35.7	NM	
PAT	76.1	58.5	139.9	-45.6	77.2	-1.4	PAT beat on account of better topline and lower interest

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY19		FY20			FY21E			FY22E			Comments
	Old	New	Old	New	Change	Old	New	Change	Old	New	Change	
Revenue	3,096.9	4,877.9	4,950.0	4,640.8	-6.2	5,671.8	5,563.0	-1.9				
EBITDA	457.3	764.3	668.2	626.5	-6.2	788.4	778.8	-1.2				
EBITDA Margin (%)	14.8	15.7	13.5	13.5	0 bps	13.9	14.0	10 bps				
PAT	324.9	460.3	326.2	304.1	-6.8	355.6	420.6	18.3				Bake in lower tax rate from FY 22 onwards
Diluted EPS (₹)	12.7	17.9	12.7	11.9	-6.8	13.9	16.4	18.3				

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

EPC	FY16	FY17	FY18	FY19	FY20E	Current FY21E	Current FY22E	Earlier FY21E	Earlier FY22E	Comments
Order Inflow	3,972	5,668	7,750	6,150	1,297	11,000	4,000	8,000	8,000	
Order Backlog	5,400	9,392	15,286	12,210	8,629	14,988	13,425	21,954	21,624	

Source: Company, ICICI Direct Research

Conference call Highlights

- Order Book:** PNC's order book (OB) was at ₹ 8,629 crore as of Q4FY20. The company, in its OB, has not included Challakere-Hariyur project (BPC: ₹ 1,157.0 crore; EPC cost: ₹ 935 crore) and four new HAM project that it won over the last four months. Including these projects, order book is over ₹ 15000 crore, providing visibility of over three years. We highlight that PNC has won four HAM projects: three (Unnao-Lalganj (₹ 1602 crore), Jagdishpur - Faizabad (₹ 1530 crore), Aligarh- Kanpur (₹ 2052 crore) in Q4FY20 and Meerut-Nazibabad (₹ 1412 crore) in Q1FY21. **Challakere Hariyur HAM project's (FC done) appointed date is expected by July 2020 end. The company also indicated the land acquisition for newly HAM projects is at ~80% and appointed date is expected by Q3FY21**
- Order inflow expectations:** PNC indicated that NHAI order awarding is expected to begin from next month with healthy bid pipeline of ~60 projects likely to be awarded over the next four months. Furthermore, it would continue look for diversification in order book by considering selective bidding for orders in water (UP Jal Jeevan), metro and railways track laying. Given the strong bid pipeline, the company expects order inflows of ₹ 7000 primarily in EPC mode in rest of FY21E. **We conservatively bake in ₹ 4000 crore of fresh order inflows in remainder of FY21. Given the uncertainty, the management refrained from revenue guidance for FY21**
- Equity requirement:** PNC has infused ₹ 443 crore equity in its HAM projects by Q3FY20 and has a balance equity requirement of ₹ 405 crore, which would be invested in the next two years. Furthermore, the new HAM projects would entail equity requirement of ₹ 600 crore over the next three to three and a half years. It expects equity infusion schedule as: ₹ 280 crore in FY21E, ₹ 380 crore in FY22E and balance in FY23/24E. **The company expects cash generation of ₹ 1700 crore, over the next three years from EPC business and considers the internal accrual and current cash to be sufficient for equity infusion**
- Debt/ capex/ working capital:** PNC's standalone debt was at ₹ 326 crore as of Q4FY20. Cash on PNC's books was at ₹ 740 crore, making the company net cash positive. On the capex front, the company has incurred ₹ 78 crore capex in FY20 and the management has guided for ₹ 75-80 crore in FY21E. **The company indicated that working capital days are expected to remain stable at 65-70 days in FY21E vs. 57 days in FY20. We bake in working capital days of ~80 days conservatively in FY21E and FY22E**
- Asset monetisation:** The company indicated that deal with Cube Highways for 35% stake sale in Ghaziabad-Aligarh BOT project has been cancelled and discussions with other prospective investors at advanced stage. Furthermore, monetisation plan of HAM portfolio should also take longer time given the sharp correction in bank rate vs. lending rates
- Toll revenue** – MP highways ₹ 10.8 crore, Kanpur Ayodhya ₹ 9 crore, Kanpur highway ₹ 23.4 crore, Narela ₹ 9.35 crore, Bareilly Almora ₹ 9.9 crore, Ghaziabad Aligarh - ₹ 49 crore. **The company also said that toll collection have are back to 80-90% pre-Covid-19 levels**
- Early completion bonus:** PNC expects to book bonus worth ₹ 14.1 crore for early completion of Aligarh-Moradabad highway project in Q2FY21E
- Taxation:** Since PNC has MAT credit available which can be utilised in FY21E, it will follow the old tax regime. Accordingly, the management has guided for 31-32% tax rate in FY21E and ~25%, thereafter

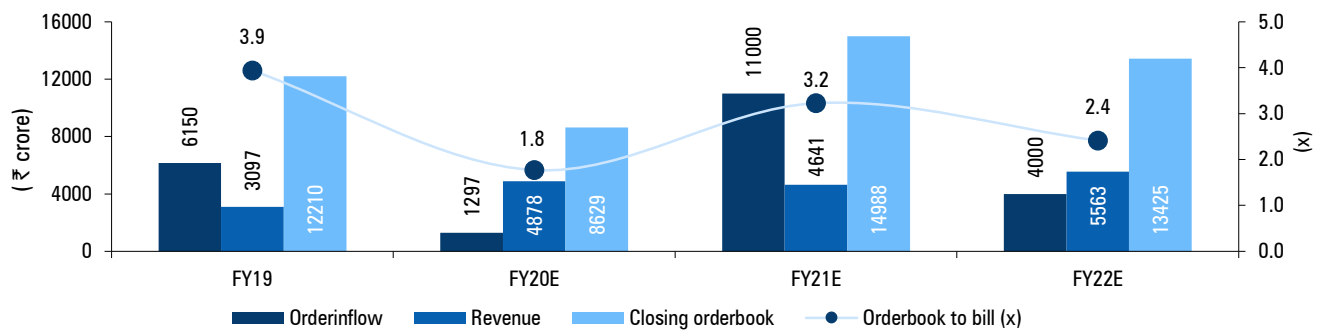
Company Analysis

Exhibit 4: Key EPC projects under construction

Order book	Remaining Value (₹crore)
Nagpur-Mumbai Expressway	1420
Chakeri-Allahabad	1151
Lucknow Ringroad	1062
Purvanchal Expressway, Pkg-V	971
Purvanchal Expressway, Pkg-VI	671
Nagina Kashipur	571
Top 6 projects	5846
Other Projects	2783
Total	8629

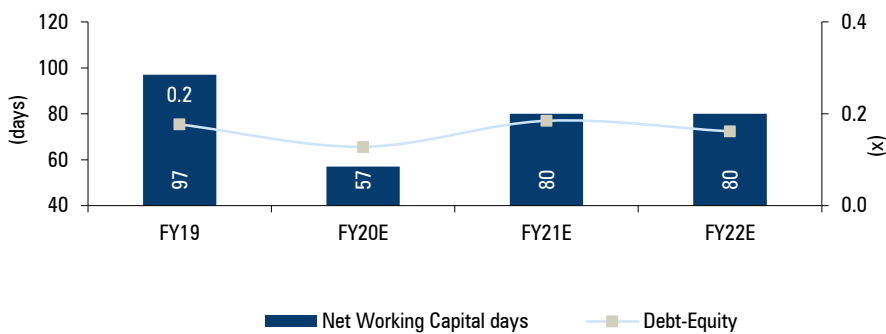
Source: Company, ICICI Direct Research

Exhibit 5: Strong order book position



Source: Company, ICICI Direct Research

Exhibit 6: Net working capital days and D/E trend



Source: Company, ICICI Direct Research

Exhibit 7: BOT project summary

Project	% Stake	Authority	State	Stretch	Type	Kms	Lanes	Equity invested (₹crore)	PNC's share of invested equity (₹crore)	Debt outstanding (₹crore)
Ghaziabad Aligarh	35	NHAI	UP	NH-91	Toll	125.0	4	194.0	67.9	837.0
Kanpur Kabrai	100	NHAI	UP	NH-86	Toll	123.0	2	67.5	67.5	157.0
Gwalior Bhind	100	MPRDC	MP	NH-92	Toll	107.7	2	78.3	78.3	170.0
Bareilly Almora*	100	UPSHA	UP	SH-37	Toll	54.0	4	74.6	74.6	414.0
Rae Bareilly Jaunpur*	100	NHAI	UP	NH-23	Annuity	166.4	2	139.6	139.6	549.0
Narela Industrial Estate	100	DSIIDC	Delhi	NA	Annuity	33.0	NA	35.0	35.0	67.0
Kanpur Ayodhya	100	NHAI	UP	NH-28	OMT	217.0	4	0.1	0.1	-
Total						826.1		589.1	463.0	2194.0

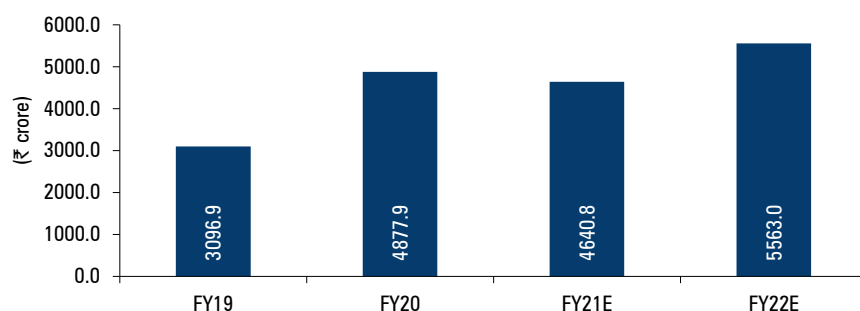
Source: Company, ICICI Direct Research

Exhibit 8: HAM project summary

Project	% Stake	Authority	State	Stretch	Kms	Lanes	Total Project cost (₹ crore)	PNC's share of invested equity (₹crore)	Outstanding Debt
Dausa-Lalsot	100	NHAI	Rajasthan	NH-11A	83.5	4	820.0	65.0	349.0
Chitradurga-Davanagere	100	NHAI	Karnataka	NH-48	72.7	6	1338.0	62.0	348.0
Jhansi-Khajuraho (Package I)	100	NHAI	UP & MP	NH-75/76	76.3	4	1342.0	98.0	400.0
Jhansi-Khajuraho (Package II)	100	NHAI	UP & MP	NH-75/76	85.4	4	1262.0	65.0	309.0
Chakeri-Allahabad	100	NHAI	UP	NH-2	145.1	6	2018.0	77.0	319.0
Aligarh Kanpur	100	NHAI	UP	NH-91	45.0	4	1104.0	68.0	100.0
Challakere - Hariyur	100	NHAI	Karnataka	NH-150A	55.7	4	1013.0	8.0	0.0
Jagdishpur - Faizabad	100	NHAI	UP	NH-330A	60.2	4	1530.0		
Mitrasen to Kanpur	100	NHAI	UP	NH-91	60.6	4	2052.0		
Unnao-Lalganj	100	NHAI	UP	NH-232A	70.0	4	1602.0		
Meerut - Nazibabad	100	NHAI	UP	NH-119	53.9	4	1412.0		
Total					808.4		15493.0	443.0	1825.0

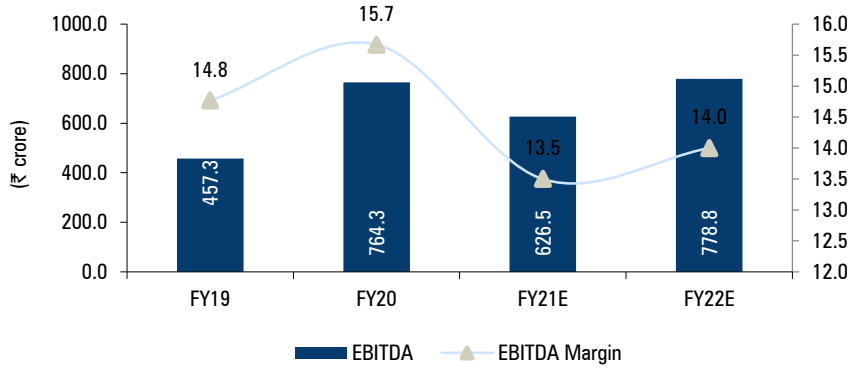
Source: Company, ICICI Direct Research

Exhibit 9: Revenue to witness a recovery post a dip in FY21E



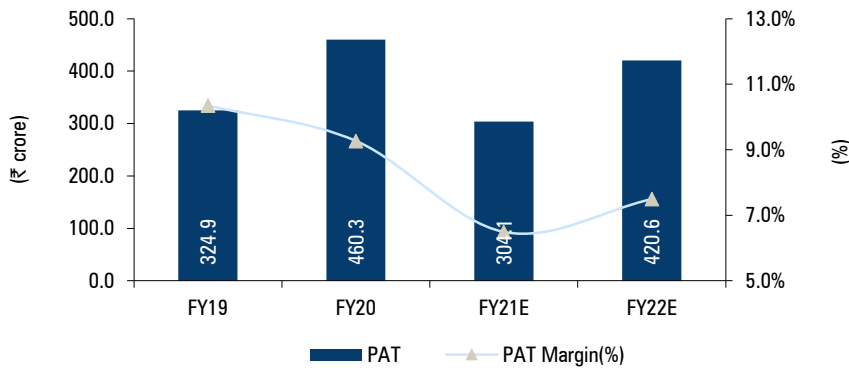
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA & EBITDA margin trend



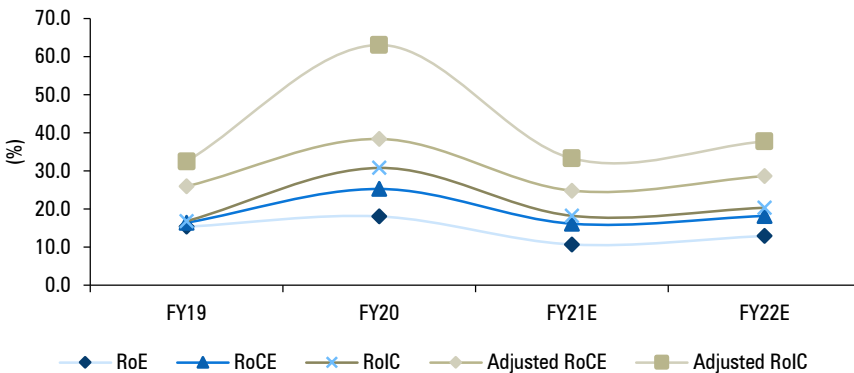
Source: Company, ICICI Direct Research

Exhibit 11: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 12: Return ratios trend



Source: Company, ICICI Direct Research

Valuation & Outlook

PNC remains our preferred pick in the EPC space given its robust order book, comfortable working capital cycle, healthy return ratios and lean balance sheet. Notwithstanding near term hiccups on account of Covid-19, PNC is likely to tide over with resilient fundamentals. While monetisation of BOT/HAM assets could be delayed in near term, we do not see any issue with sufficient internal accruals from current order book enough for equity infusion. Hence, we maintain our **BUY** rating on the stock with a revised SoTP target price of ₹ 175/share. We value its construction business at ₹ 137/share (at 4.5x FY22E EV/EBITDA implying 8.5x FY22 EPS).

Exhibit 13: SoTP Valuation

Entity	Value (₹)	Per share	Comment
Construction Business	3,505	137	4.5x FY22 EV/EBITDA
BOT & HAM Projects	951	37	
Bareilly Almora	63	2	
Gwalior Bhind	154	6	
Raibareli Jaunpur	71	3	
Narela Industrial Area	120	5	
Kanpur Kabrai	187	7	
Investment in HAM projects	355	14	0.8x Equity Invested
Less:Net Debt	(51)	(2)	FY22E net debt
Target Price	4,507	176	
Rounded off target price		175	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Net Sales	3,096.9	4,877.9	4,640.8	5,563.0
Other operating income	-	-	-	-
Other income	43.0	88.5	42.8	49.2
Total Revenues	3,139.9	4,966.4	4,683.5	5,612.2
Raw Material Expense	2,114.0	3,371.0	3,248.5	3,894.1
Employee expenses	192.3	265.1	241.3	283.7
Other Expenses	333.3	477.5	524.4	606.4
Total Operating Exp	2,639.5	4,113.6	4,014.2	4,784.2
EBITDA	457.3	764.3	626.5	778.8
Interest	64.1	114.4	102.5	124.6
Depreciation	92.2	126.4	126.1	141.1
PBT	344.0	612.0	440.7	562.3
Total Tax	19.1	151.7	136.6	141.7
Reported PAT	324.9	460.3	304.1	420.6
Adjusted PAT	324.9	460.3	304.1	420.6
EPS (Diluted)	12.7	17.9	11.9	16.4

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
₹ crore				
₹crore	FY19	FY20	FY21E	FY22E
Profit after Tax	324.9	460.3	304.1	420.6
Depreciation	92.2	126.4	126.1	141.1
Other Income	-43.0	-88.5	-42.8	-49.2
Cash Flow before WC chang	457.3	764.4	626.6	778.8
Net Increase in Current Assets	-439.4	-172.6	-820.6	-568.5
Net Increase in Current Liabilitie	374.5	312.0	295.4	364.3
Net CF from Op. Activities	373.3	752.0	-35.2	432.9
(Purchase)/Sale of Fixed Asset	-300.7	-109.0	-80.0	-125.0
Purchase of Investment	-123.5	-125.1	-200.0	-200.0
Other Income	43.0	88.5	42.8	49.2
Net CF from Inv.Activities	-381.2	-145.6	-237.2	-275.8
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-64.1	-114.4	-102.5	-124.6
Net CF from Fin. Activities	152.1	-175.9	89.0	-136.3
Net Cash flow	144.3	430.5	-183.4	20.7
Opening Cash/ Cash Equiv.	147.3	309.4	740.1	556.6
Closing Cash/ Cash Equiv.	309.4	740.1	556.6	577.3

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Liabilities				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	2,063.9	2,495.3	2,790.9	3,199.8
Networth	2,115.2	2,546.6	2,842.2	3,251.1
Secured Loan	374.7	326.0	526.0	526.0
Unsecured Loan	-	-	-	-
Total Debt	374.7	326.0	526.0	526.0
Deferred Tax Liability	-	-	-	-
Total Liabilities	2,490	2,873	3,368	3,777
Assets				
Gross Block	860.2	959.6	1,050.5	1,175.5
Net Block	613.5	586.5	540.2	524.1
Capital WIP	6.2	-	-	-
Non-current Investments	916.9	979.7	1,179.7	1,379.7
Current Assets				
Inventories	403.6	267.3	254.3	304.8
Sundry Debtors	615.4	803.5	1,017.2	1,295.5
Loans and Advances	566.3	712.8	1,080.7	1,295.5
Other Current Assets	282.2	256.5	508.6	533.4
Cash	309.4	740.1	556.6	577.3
Total Current Assets	2,176.9	2,842.5	3,479.7	4,068.9
Creditors	473.8	467.5	699.3	838.3
Provisions	11.7	10.8	10.3	12.3
Other Current Liabilities	369.9	413.0	508.6	609.6
Other Long Term Liabilities	370.3	646.3	614.9	737.1
Total Current Liabilities	1,225.6	1,537.7	1,833.1	2,197.3
Net Current Assets	951.3	1,304.9	1,646.6	1,871.6
Total Assets	2,490	2,873	3,368	3,777

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per Share Data				
EPS (Fully Diluted)	12.7	17.9	11.9	16.4
Cash EPS	16.3	22.9	16.8	21.9
BV	82.4	99.3	110.8	126.7
Dividend per share	1.2	0.5	0.3	0.5
Operating Ratios				
EBITDA / Net Sales	14.8	15.7	13.5	14.0
PAT / Net Sales	10.5	9.4	6.6	7.6
Inventory Days	47.6	20.0	20.0	20.0
Debtor Days	72.5	60.1	80.0	85.0
Creditor Days	55.8	35.0	55.0	55.0
Return Ratios				
RoE	15.4	18.1	10.7	12.9
RoCE	16.4	25.3	16.1	18.2
RoIC	16.8	30.8	18.2	20.3
Valuation Ratios				
EV / EBITDA	8.0	4.1	5.6	4.4
P/E	11.0	7.8	11.7	8.5
EV / Net Sales	1.2	0.6	0.7	0.6
Market Cap / Sales	1.2	0.7	0.8	0.6
Price to Book Value	1.7	1.4	1.3	1.1
Turnover Ratios				
Asset turnover	1.2	1.7	1.4	1.5
Gross Block Turnover	3.6	5.1	4.4	4.7
Solvency Ratios				
Debt / Equity	0.2	0.1	0.2	0.2
Current Ratio	1.5	1.3	1.6	1.6
Debt / EBITDA	0.8	0.4	0.8	0.7
Quick Ratio	1.2	1.2	1.4	1.4

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Construction)

Sector / Company	CMP		Rating	M Cap (₹Cr)	EPS (₹)			P/E (x)			/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
KNR Constructions (KNRC)	221	240	Buy	3,105	18.7	16.0	10.0	11.2	13.1	20.9	7.4	6.4	8.1	2.1	1.8	1.7	18.6	13.9	8.0
PNC Infratech (PNCINF)	139	175	Buy	3,572	12.7	17.9	11.9	11.0	7.8	11.7	8.0	4.1	5.6	1.7	1.4	1.3	15.4	18.1	10.7
Ashoka Buildcon (ASHBU)	63	60	Hold	1,769	-1.2	5.9	-3.8	NA	10.7	NA	5.0	4.3	5.2	5.8	4.0	5.4	-11.7	40.0	-34.6
NCC (NAGCON)	31	27	Hold	1,897	9.4	6.3	3.1	3.3	4.9	10.0	2.3	3.1	3.8	0.1	0.2	0.2	11.9	7.5	3.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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