

Muted performance impacted by slower execution...

About the stock: PNC Infratech has established itself as a strong executor in the roads, water infra and airport runway segments. Additionally, superior execution capabilities via ownership of modern equipment and in-house teams enables PNC to deliver projects on time. PNC has executed 70 major infrastructure projects till date.

- Reported 30.3% revenue CAGR during FY17-22; operating margin was in the range of 13-15%
- Proficient execution, robust return ratios (RoCE: ~20%)

Q2FY23 Results: PNC reported a muted set of numbers during Q2FY23.

- Standalone revenue declined 3.3% YoY to ₹ 1,561.1 crore albeit on the higher base, largely impacted by slowed execution pace owing to prolonged rains across majority of its project sites
- The EBITDA margin was at a normalised level of 13.3% (down 46 bps YoY) benefiting from a softening in commodity prices and better project mix. Effectively, EBITDA at ₹ 207 crore, was down 6.6% YoY
- PAT was at ₹ 131.1 crore, down 3.2% YoY

What should investors do? PNC's share price has grown at ~7% CAGR over the past five years (from ~₹ 183 in November 2017 to ₹ 261 levels in November 2022).

- We maintain our **BUY** rating on the company

Target Price and Valuation: We value PNC at ₹ 350/share.

Key triggers for future price performance:

- PNC is likely to be one of the major beneficiaries of the thriving roads and water supply segment (Jal Jeevan Mission)
- Strong order book position, receipt of appointed date in most of its projects and execution pick-up are expected to translate to 11.7% topline CAGR over FY22-24E along with stable margins
- Planned monetisation of HAM/annuity assets

Alternate Stock Idea: Besides PNC, we like HG Infra in the EPC space.

- Strong execution, lean balance sheet and healthy order book
- BUY with a target price of ₹ 700/share



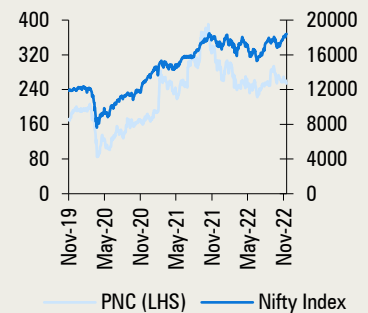
Particulars

Particular	Amount (₹ crore)
Market Cap	6,625.1
Debt (₹ crore) FY22	215.8
Cash (₹ crore) FY22	527.7
EV (₹ crore)	6,313.2
52 week H/L (₹)	396/ 219
Equity capital	51.3
Face value	₹ 2

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	56.1	56.1	56.1	56.1
DII	28.9	28.9	28.6	29.1
FII	10.9	10.5	10.5	9.8
Other	4.2	4.6	4.9	5.1

Price Chart



Key Risks

Key Risk: (i) Delay in HAM projects execution; (ii) Any working capital stress in water/irrigation projects

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Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY21-24E)
Net Sales	3,096.9	4,877.9	4,925.4	6,305.5	30.1%	7,155.4	7,872.7	11.7%
EBITDA	457.3	764.3	676.6	787.2	28.9%	930.2	1,062.8	16.2%
EBITDA Margin (%)	14.8	15.7	13.7	12.5		13.0	13.5	
Adjusted PAT	324.9	315.2	361.9	447.8	24.1%	543.4	632.4	18.8%
EPS (₹)	12.7	17.9	14.1	17.5		21.2	24.7	
P/E (x)	20.6	14.5	18.5	15.0		12.3	10.6	
EV/EBITDA (x)	14.8	8.1	9.2	8.1		7.2	6.3	
RoNW (%)	15.4	12.4	12.4	13.4		14.0	14.1	
RoCE (%)	16.4	25.3	19.2	20.0		20.3	20.4	

Key business highlight and outlook

Order book strong, provides healthy revenue visibility

PNC's order book (OB) at the end of Q2FY23 was at ₹ 19,261 crore (including L1 in seven HAM projects having EPC value of ₹ 7,439 crore). This translates into healthy 2.8x book to TTM revenues. Roads contributed ~65% to the overall order book while balance ~35% was contributed by water and canal projects. Going forward, the company has guided for inflows worth ~₹ 8,000-10,000 crore during FY23E (vs. ~₹ 11,150 crore of projects secured in FY22). The key focus would be on roads and water supply projects. On the execution front, the company reported 15.8% YoY revenue growth (to ₹ 3,319.2 crore) during H1FY23 backed by its strong order book position, pick-up in execution and receipt of appointed date in most projects. Overall, the company has guided for ~10-15%, ~10% YoY revenue growth for FY23, FY24, respectively, with operating margin at ~13.5%.

Well-placed to fund HAM projects; asset monetisation on cards

PNC's balance sheet remained lean backed by its prudent strategy to mainly focus on an asset light business model and efficient manage working capital. At the end of Q2FY23, its gross debt, cash and cash equivalent at the standalone level was at ₹ 281 crore, ₹ 523 crore, respectively. Going forward, it has total equity requirement of ₹ 2,390 crore (₹ 1,109 crore already invested till Q1FY23; ₹ 1,281 crore to be spent over the next two to three years) towards already secured HAM projects. Despite these, we expect its debt to remain at comfortable levels with healthy operating cash flow generation arising from improved profitability and, better cash flow management. Also, PNC is currently in advance stages of discussions with potential investor to monetise its six completed HAM, one BOT-annuity and one BOT-toll projects (total equity infusion: ~₹ 940 crore). The management expects positive development on these fronts by FY23-end. The monetisation of HAM assets would increase its ability to bag newer projects.

Key conference call takeaways

- **Industry outlook:** MoRTH has constructed 3,559 km of National Highway during H1FY23 compared to 3,824 km constructed during H1FY22, mainly impacted by higher input cost along with a heavy and prolonged monsoon period. Further, the award figure was at 4,092 km in H1FY23 (vs. 4,609 km during H1FY22). Overall, the authority is aiming to award ~6,500 km of road projects during FY23
- **Bid pipeline:** At present, PNC has a targeted bid pipeline of ₹ 50,000 crore from the NHAI side while the company is contemplating bidding for some water supply projects (opportunity size: ₹ 20,000-25,000 crore). Competitive intensity has already been reduced compared to last year with a gradual removal of relaxations provided under 'Atmanirbhar Bharat' Scheme. Also, PNC is not facing major competition for Jal Jeevan Mission (JJM) projects
- **Inflows:** PNC has tendered for ₹ 11,000 crore worth of projects mainly in the roads segment with bids likely to get opened by December 2022. Overall, the company is targeting order inflows of ₹ 8,000-10,000 crore, ~10,000 crore during FY23, FY24, respectively. Road projects would be contributing ~70% to overall order inflow while rest is targeted from water supply division. The focus area for water supply projects would be Uttar Pradesh and Rajasthan
- **Water segment:** Water and canal projects order book value as on September 30, 2022 was at ₹ 7,583 crore. Under JJM (order book value: ~₹ 7,000 crore), PNC has a current executable order book of ₹ 2,260 crore. Out of these, the company booked revenue of ₹ 348 crore till September 2022 (₹ 108 crore during Q4FY22; ₹ 240 crore during H1FY23). Overall, the management expects revenue of ~₹ 760 crore during H2FY23 from water supply project.

Also, the net executable order book is likely to reach ₹ 3,000+ crore by FY23-end with approval of DPRs

- HAM projects portfolio:** PNC has a portfolio of 18 HAM projects with an aggregate bid project cost of ₹ 24,590 crore. Out of these, the company has achieved PCoD/CoD in five projects, six are under construction while it is awaiting appointed date in the balance seven projects. Overall, the company has an overall equity requirement of ₹ 2,390 crore. Out of these, PNC has infused ₹ 1,109 crore equity in its HAM projects till September 2022-end and has a balance equity requirement of ₹ 1,281 crore (₹ 250 crore during rest-FY23E, ₹ 450 crore in FY24E and balance in FY25E). Overall, PNC expects to fund its remaining equity requirement with healthy internal cash flow generation
- Financial closure:** PNC has achieved financial closure for three HAM projects viz. Kanpur-Lucknow Expressway Package -1 and 2, and Akkalkot Badadal-Maradgi project having an aggregate bid project cost of ₹ 4,501 crore within the stipulated time period
- Margin:** Operating margin during H1FY23 was at 14%. **With a softening in commodity prices such as steel, the management expects margins to remain at their normalised level of ~13.5%, going forward**
- Bonus:** The company is expecting early completion bonus from its two packages of Delhi Vadodara Expressway project as jobs have been completed ~60-70 days earlier than the revised completion date
- Working capital:** Net working capital cycle at the end of Q2FY23 increased to 79 days (vs. 68 days at Q1FY23-end) with debtors staying at 54 days (at Q2FY23-end vs. 60 at Q1FY23-end). Going forward, the management expects the working capital cycle to remain in the range of 80-90 days
- Debt:** PNC's standalone debt was at ₹ 281 crore as of Q2FY23-end while cash and bank on PNC's books was at ₹ 523 crore. Going forward, the management expects standalone gross debt to hover at ~₹ 250 crore (by FY23-end) to be backed by generation of higher operating cash flows
- Assets monetisation plan:** PNC is currently in various stages of discussions with potential investors to monetise its six completed HAM, one – BOT toll and one BOT-annuity project (total equity infusion: ~₹ 940 crore). One of the investors has already commenced due-diligence for three HAM projects. The management expects positive development on this front by FY23-end
- Capex:** PNC has incurred capex of ₹ 22 crore during H1FY23. Overall, the company has guided for capex of ₹ 100-120 crore during FY23E

PNC remains one of our preferred picks in the EPC space given its robust order book, healthy return ratios and lean balance sheet. With sufficient internal accruals from the current order book, equity infusion for HAM is not expected to witness any hiccups. Furthermore, with asset monetisation plan fructification (it is looking to monetise its BOT/HAM assets and expects some development by year end), the growth potential will increase. We maintain our BUY rating with an SoTP target price of ₹ 350/share. We value its construction business at ₹ 296/share (at 12x FY24 EPS).

Exhibit 1: Variance Analysis

Particulars	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	1561.1	1631.5	1615.0	-3.3	1758.1	-11.2	Topline performance impacted by prolonger rains
Other Income	10.5	8.6	17.4	-39.8	7.5	39.8	
Net Raw material consumed	1171.2	1210.6	1145.8	2.2	1289.6	-9.2	
Employee benefit expenses	73.0	75.0	86.5	-15.6	75.3	-3.2	
Other Expenses	109.9	133.8	161.1	-31.7	135.4	-18.8	
EBITDA	207.0	212.2	221.6	-6.6	257.8	-19.7	
EBITDA Margin(%)	13.3	13.0	13.7	-46 bps	14.7	-140 bps	Margin remained elevated with better project mix
Depreciation	27.4	29.1	32.8	-16.4	26.9	1.9	
Interest	15.5	18.3	24.3	-36.4	17.5	-11.6	
PBT	174.6	173.4	182.0	-4.0	220.9	-20.9	
Taxes	43.6	43.7	46.6	-6.5	54.3	-19.8	
PAT	131.1	129.7	135.4	-3.2	166.5	-21.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	7,309.9	7,155.4	-2.1	8,108.9	7,872.7	-2.9	
EBITDA	946.6	930.2	-1.7	1,094.7	1,062.8	-2.9	
EBITDA Margin (%)	13.0	13.0	5 bps	13.5	13.5	0 bps	
PAT	537.2	543.4	1.2	632.0	632.4	0.1	
Diluted EPS (₹)	20.9	21.2	1.2	24.6	24.7	0.1	

Source: Company, ICICI Direct Research

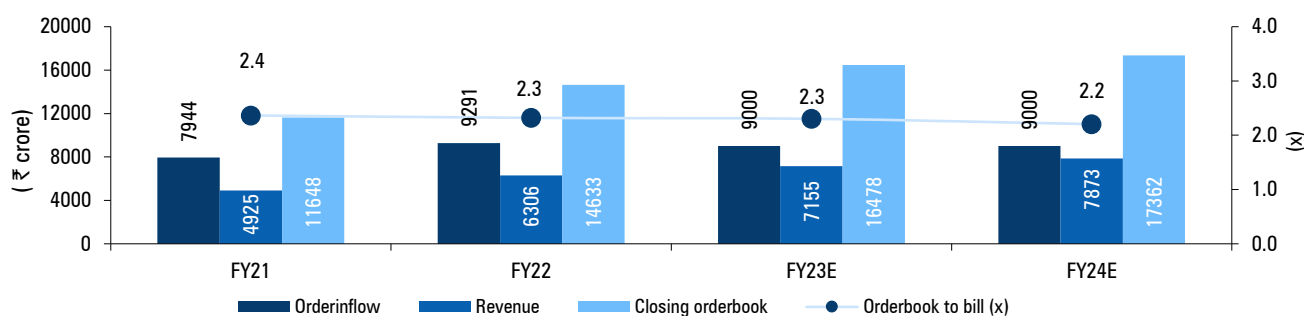
Company Analysis

Exhibit 3: Key projects under construction

Order book	Remaining Value (₹ crore)
Aligarh-Kappur Pkg-V	537
Unnao-Lalganj	763
Jagdishpur Faizabad	526
Meerut Nazibabad	564
Lucknow Ringroad	405
Challakere to Hariyur	494
Top 6 projects	3,289
Water and Canal Projects	7,583
New HAM projects	7,439
Other Projects	950
Total	19,261

Source: Company, ICICI Direct Research

Exhibit 4: Strong order book position



Source: Company, ICICI Direct Research

Exhibit 5: BOT project summary

Project	% Stake	Authority	State	Stretch	Type	Kms	Lanes	Equity invested (₹ crore)	PNC's share of invested equity (₹ crore)	Debt outstanding (₹ crore)
Kanpur Kabrai	100	NHAI	UP	NH-86	Toll	123.0	2	67.5	67.5	43.0
Gwalior Bhind	100	MPRDC	MP	NH-92	Toll	107.7	2	78.3	78.3	73.0
Bareilly Almora*	100	UPSHA	UP	SH-37	Toll	54.0	4	74.6	74.6	330.0
Rae Bareli Jaunpur*	100	NHAI	UP	NH-23	Annuity	166.4	2	139.6	139.6	434.0
Narela Industrial Estate	100	DSIIDC	Delhi	NA	Annuity	33.0	NA	35.0	35.0	-
Kanpur Ayodhya	100	NHAI	UP	NH-28	OMT	217.0	4	0.1	0.1	-
Eastern Peripheral Expressway	100	NHAI	Haryana/UP		OMT	135.0	6	0.0	0.0	-
Total								395.2	395.2	880.0

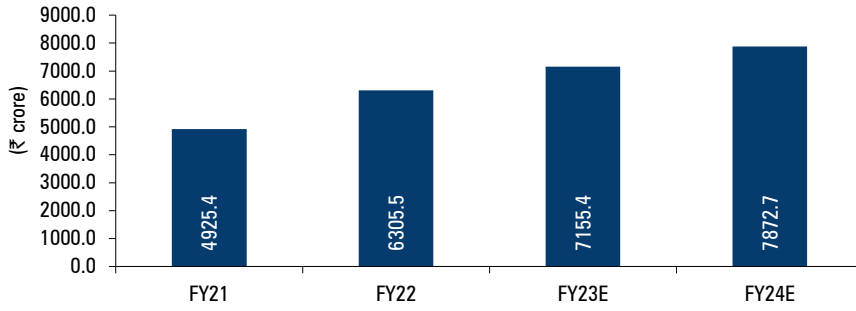
Source: Company, ICICI Direct Research

Exhibit 6: 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	65	293
Chitradurga-Davanagere	100	NHAI	Karnataka	NH-48	72.7	6	1,338	107	558
Jhansi-Khajuraho (Package I)	100	NHAI	UP & MP	NH-75/76	76.3	4	1,342	128	571
Jhansi-Khajuraho (Package II)	100	NHAI	UP & MP	NH-75/76	85.4	4	1,262	104	543
Chakeri-Allahabad	100	NHAI	UP	NH-2	145.1	6	2,018	172	647
Aligarh Kanpur	100	NHAI	UP	NH-91	45.0	4	1,110	131	490
Challakere - Hariyur	100	NHAI	Karnataka	NH-150A	55.7	4	1,023	60	155
Jagdishpur - Faizabad	100	NHAI	UP	NH-330A	60.2	4	1,311	70	250
Mitrasen to Kanpur	100	NHAI	UP	NH-91	60.6	4	1,790	128	494
Unnao-Lalganj	100	NHAI	UP	NH-232A	70.0	4	1,491	79	189
Meerut - Nazibabad	100	NHAI	UP	NH-119	53.9	4	1,256	64	175
Kanpur-Lucknow (Pkg I)	100	NHAI	UP	NH-27	17.5	6	1,618	-	-
Kanpur-Lucknow (Pkg II)	100	NHAI	UP	NH-31/25	45.2	6	1,662	-	-
Sonauli- Gorakhpur	100	NHAI	UP	NH-29E	79.5	4	1,458	-	-
Mathura - Gaju Village	100	NHAI	UP	NH-530B	32.9	4	885	-	-
Hardoi	100	NHAI	UP	NH-731	54.4	4	864	-	-
Gaju Village- Devinagar	100	NHAI	UP	NH-530B	33.0	4	738	-	-
Badadal-Maradgi S	100	NHAI	MH & KN	NH-150C	71.0	6	1,733	-	-
Total							23,719	1,108	4,365

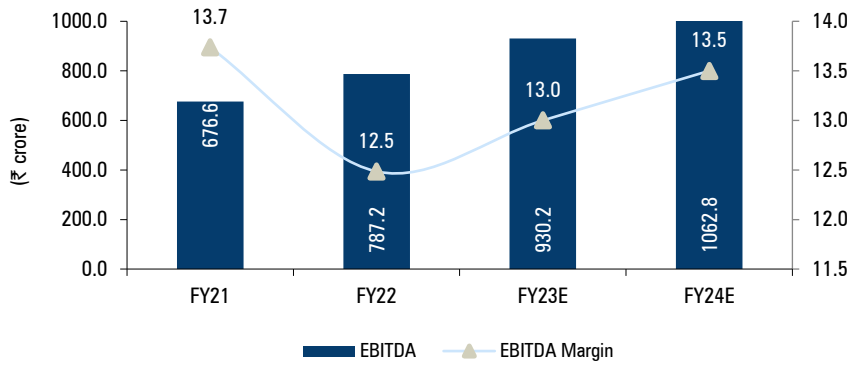
Source: Company, ICICI Direct Research

Exhibit 7: Revenue growth to be healthy



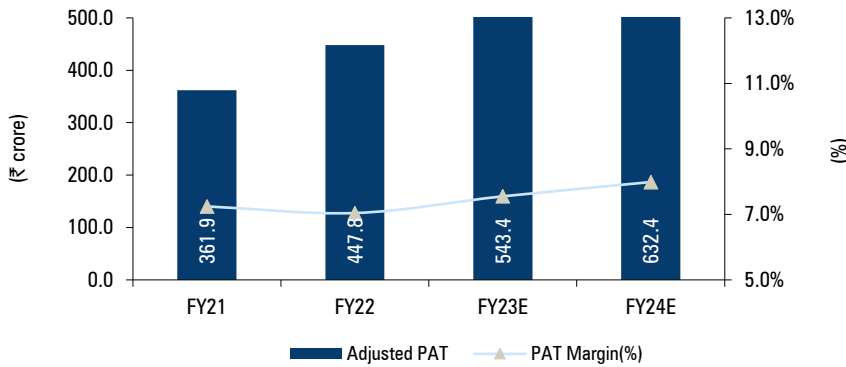
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Valuation & Outlook

PNC remains one of our preferred picks in the EPC space given its robust order book, healthy return ratios and lean balance sheet. With sufficient internal accruals from the current order book, equity infusion for HAM is not expected to witness any hiccups. Furthermore, with asset monetisation plan fructification (it is looking to monetise its BOT/HAM assets and expects some development by year end), the growth potential will increase. We maintain our BUY rating with an SoTP target price of ₹ 350/share. We value its construction business at ₹ 296/share (at 12x FY24 EPS).

Exhibit 10: SoTP valuation

Entity	₹ crore	Per share (₹)	Comment
Construction Business	7,589	296	12x FY24 P/E
BOT & HAM Projects	1,503	59	
Bareilly Almora	75	3	
Gwalior Bhind	78	3	
Raibereeli Jaunpur	140	5	
Narela Industrial Area	35	1	
Kanpur Kabrai	68	3	
Investment in HAM projects	1,108	43	1x Equity Invested till date
Target Price	9,092	354	
Rounded off target price		350	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	4,925.4	6,305.5	7,155.4	7,872.7
Other operating income	-	-	-	-
Other income	71.4	54.2	40.0	45.0
Total Revenues	4,996.8	6,359.7	7,195.4	7,917.7
Raw Material Expense	3,492.7	4,451.7	5,223.5	5,707.7
Employee expenses	279.1	342.0	357.8	393.6
Other Expenses	477.1	724.5	644.0	708.5
Total Operating Exp	4,248.8	5,518.3	6,225.2	6,809.9
EBITDA	676.6	787.2	930.2	1,062.8
Interest	77.1	80.1	75.2	80.6
Depreciation	112.4	129.9	140.3	148.9
PBT	558.5	631.4	754.7	878.3
Total Tax	196.6	183.6	211.3	245.9
Reported PAT	361.9	447.8	543.4	632.4
Adjusted PAT	361.9	447.8	543.4	632.4
EPS (Diluted)	14.1	17.5	21.2	24.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

₹ crore	FY21	FY22	FY23E	FY24E
Profit after Tax	361.9	447.8	543.4	632.4
Depreciation	112.4	129.9	140.3	148.9
Other Income	-71.4	-54.2	-40.0	-45.0
Cash Flow before WC changes	676.6	787.2	930.2	1,062.8
Net Increase in Current Assets	-250.1	-689.0	-604.9	-359.3
Net Increase in Current Liabilities	12.3	196.7	179.0	193.0
Net CF from Op. Activities	242.2	111.3	293.1	650.6
(Purchase)/Sale of Fixed Assets	-183.5	-60.1	-120.0	-80.0
Purchase of Investment	-97.2	-66.6	-410.0	-500.0
Other Income	71.4	54.2	40.0	45.0
Net CF from Inv.Activities	-209.3	-72.4	-490.0	-535.0
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-77.1	-80.1	-75.2	-80.6
Increase/Decrease in Debt	72.4	-183.2	0.0	0.0
Dividend Paid	-12.8	-12.8	-12.8	-12.8
Net CF from Fin. Activities	-4.7	-279.5	-88.1	-93.5
Net Cash flow	28.2	-240.6	-285.0	22.1
Opening Cash/ Cash Equiv.	740.1	768.2	527.7	242.7
Closing Cash/ Cash Equiv.	768.2	527.7	242.7	264.8

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	2,857.2	3,288.9	3,819.4	4,439.0
Networth	2,908.5	3,340.2	3,870.7	4,490.3
Secured Loan	399.0	215.8	215.8	215.8
Unsecured Loan	-	-	-	-
Total Debt	399.0	215.8	215.8	215.8
Deferred Tax Liability	-	-	-	-
Total Liabilities	3,307.5	3,556.0	4,086.5	4,706.1
Assets				
Gross Block	1,121.1	1,185.0	1,305.0	1,385.0
Net Block	653.5	587.6	567.3	498.4
Capital WIP	3.4	-	-	-
Non-current Investments	1,038.7	1,205.7	1,615.7	2,115.7
Current Assets				
Inventories	353.6	480.8	545.6	600.3
Sundry Debtors	839.2	1,272.8	1,470.3	1,617.7
Loans and Advances	801.7	876.4	1,176.2	1,294.1
Other Current Assets	295.7	349.3	392.1	431.4
Cash	768.3	527.7	242.7	264.8
Total Current Assets	3,159.0	3,507.0	3,826.9	4,208.3
Creditors	719.4	507.6	588.1	647.1
Provisions	23.8	20.8	23.6	25.9
Other Current Liabilities	383.6	485.4	529.3	582.4
Other Long Term Liabilities	422.6	732.4	784.2	862.8
Total Current Liabilities	1,549.4	1,746.1	1,925.1	2,118.1
Net Current Assets	1,609.6	1,760.9	1,901.7	2,090.2
Total Assets	3,307.5	3,556.0	4,086.5	4,706.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS (Fully Diluted)	14.1	17.5	21.2	24.7
Cash EPS	18.5	22.5	26.6	30.5
BV	113.4	130.2	150.9	175.0
Dividend per share	0.5	0.5	0.5	0.5
Operating Ratios				
EBITDA / Net Sales	13.7	12.5	13.0	13.5
PAT / Net Sales	7.3	7.1	7.6	8.0
Inventory Days	26.2	27.8	27.8	27.8
Debtor Days	62.2	73.7	75.0	75.0
Creditor Days	53.3	29.4	30.0	30.0
Return Ratios				
RoE	12.4	13.4	14.0	14.1
RoCE	19.2	20.0	20.3	20.4
RoIC	23.2	21.7	20.6	20.6
Valuation Ratios				
EV / EBITDA	9.2	8.1	7.2	6.3
P/E	18.5	15.0	12.3	10.6
EV / Net Sales	1.3	1.0	0.9	0.8
Market Cap / Sales	1.4	1.1	0.9	0.9
Price to Book Value	2.3	2.0	1.7	1.5
Turnover Ratios				
Asset turnover	1.5	1.8	1.8	1.7
Gross Block Turnover	4.4	5.3	5.5	5.7
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.0
Current Ratio	1.5	1.7	1.9	1.9
Debt / EBITDA	0.6	0.3	0.2	0.2
Quick Ratio	1.2	1.4	1.6	1.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours 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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