

Asset monetisation – key catalyst in near term...

About the stock: PNC Infratech has established itself as a strong executor in roads, water infra and airport runway segments. Additionally, superior execution capabilities via ownership of modern equipment and in-house teams enable 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%)

Q3FY23 Results: PNC reported muted execution during Q3FY23.

- Standalone revenues witnessed modest growth of ~7% YoY to ₹ 1,627 crore, impacted by longer time taken for receipt of appointed date for its new HAM projects
- EBITDA at ₹ 208 crore, was up 25.7% YoY. EBITDA margin was at 12.8% (up 191 bps YoY). Adjusted for ₹ 10 crore one off in employee costs, the margin was at 13.4% aided by some benefit arising from softening in commodity prices while the base quarter had some impairment
- Like to like PAT was up ~21% YoY at ₹ 139.4 crore

What should investors do? PNC's share price has grown at ~15% CAGR over the past five years (from ~₹ 168 in February 2018 to ₹ 331 currently).

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

Target Price and Valuation: We value PNC at ₹ 410/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 to translate into 12.1% topline CAGR over FY22-25E and 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 ₹ 915/share

Key Financial Summary

₹ crore	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY21-25E)
Net Sales	4,877.9	4,925.4	6,305.5	30.1%	6,964.6	8,035.1	8,873.2	12.1%
EBITDA	764.3	676.6	787.2	28.9%	940.2	1,084.7	1,197.9	15.0%
EBITDA Margin (%)	15.7	13.7	12.5		13.5	13.5	13.5	
Adjusted PAT	315.2	361.9	447.8	24.1%	596.4	675.1	748.7	18.7%
EPS (₹)	17.9	14.1	17.5		23.2	26.3	29.2	
P/E (x)	18.5	23.5	19.0		14.2	12.6	11.3	
EV/EBITDA (x)	10.5	11.9	10.4		8.9	7.8	6.9	
RoNW (%)	12.4	12.4	13.4		15.2	14.7	14.1	
RoCE (%)	25.3	19.2	20.0		20.8	20.5	19.7	

Source: Company, ICICI Direct Research



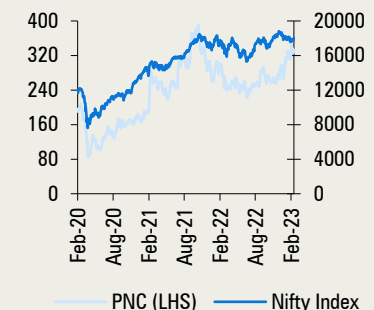
Particulars

Particular	Amount (₹ crore)
Market Cap	8,495
Debt (₹ crore) FY22	216
Cash (₹ crore) FY22	528
EV (₹ crore)	8,183
52 week H/L (₹)	352/ 219
Equity capital	51.3
Face value	₹ 2

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	56.1	56.1	56.1	56.1
DII	28.9	28.6	29.1	29.6
FII	10.5	10.5	9.8	9.3
Other	4.6	4.9	5.1	5.0

Price Chart



Key Risks

Key Risk: (i) Delay in HAM projects execution; (ii) Delay in order inflows

Research Analyst

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Key business highlight and outlook

Order book strong, provides healthy revenue visibility

PNC's order book (OB) at the end of Q2FY23 was at ₹ 17,842 crore, 2.6x book to TTM revenues. Roads contributed ~65% to the overall order book while balance ~35% is 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 projects while it awaits last phase ordering of Jal Jeevan Mission (JJM) orders in Uttar Pradesh (₹ 10000 crore). Overall, the company has guided for ~10%, ~15% YoY revenue growth for FY23, FY24 respectively with operating margin at ~13.3-13.5%.**

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 efficiently manage working capital. At the end of Q3FY23, its gross debt, cash and cash equivalent at the standalone level was at ₹ 150 crore, ₹ 365 crore, respectively. **Going forward, it has total equity requirement of ₹ 2,440 crore (₹ 1176 crore already infused) towards HAM projects. Balance ₹ 1264 crore to be infused over the next two to three years. 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 discussions with seven potential investors to monetise its 11 HAM, one BOT-annuity and one BOT-toll projects (total equity infused: ~₹ 1550 crore). Out of the same, three HAM projects are in advanced stages and due diligence has been completed. PNC 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 ordering/construction trend:** MoRTH has constructed 5774 km of National Highway during 9MFY23 vs. target of 12000 km in FY23 mainly impacted by a prolonged monsoon period. Further, the award figure was at 7263 km. Overall, the authority is aiming to award ~12,000 km of road projects during FY23. The company informed that NHAI has lined up over 100 projects of ₹ 1.1 lakh crore for ordering over the next couple of months
- Inflows:** Overall, the company is targeting order inflows of ₹ 8,000-10,000 crore, ~₹ 10,000 crore during FY23, FY24, respectively. Roads project would be contributing majority to overall order inflow while the rest is targeted from the water supply division. The focus area for water supply projects would be Uttar Pradesh for the last phase of JJM project worth ₹ 10,000 crore
- Water segment:** Water and canal projects order book value as on Q3 was at ₹ 7,413 crore. Under JJM (balance order book value: ~₹ 6,420 crore), PNC has a current executable order book of ₹ 2,700 crore. Out of these, the company booked revenue of ₹ 615 crore till Q3FY23 (₹ 108 crore during Q4FY22; ₹ 507 crore during 9MFY23). **Overall, the management expects revenue of ~₹ 900 crore during FY23 from water supply project. Also, all the orders of ₹ 7000 crore will reach execution by June, 2023 with approval of DPRs.** It expects to complete 90% of the work by FY25
- HAM projects portfolio:** PNC has a portfolio of 18 HAM projects with an aggregate project cost of ₹ 24,097 crore. Out of these, the company has achieved PCoD/CoD in five projects, 11 projects are under construction while awaiting appointed date in the balance two projects. Overall, the company has an overall equity requirement of ₹ 2,440 crore. Out of these, PNC has infused ₹ 1,175 crore equity in its HAM projects till Q3-end and has a balance equity requirement of ₹ 1,264 crore over the next two to three years. Overall, the company expects to fund its remaining equity requirement with healthy internal cash flow generation
- Bonus:** The company is expecting early completion bonus from its two packages of Delhi Vadodara Expressway project, in case it completes them by April and May, respectively

- **Working Capital:** Net working capital cycle at the end of Q3FY23 increased to 82 days (vs. 79 days at Q2FY23-end) with debtors at 67 days (at Q3FY23-end vs. 56 at Q2FY23-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 ₹ 150 crore as of Q3FY23-end while **cash and bank on PNC's books was at ₹ 365 crore, making it a net cash company.** It expects gross debt of ₹ 200 crore as of FY23 end
- **Capex:** PNC has incurred capex of ₹ 37 crore during 9MFY23. 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 current order book, equity infusion for HAM is not expected to see 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 ₹ 410/share. We value its construction business at ₹ 350/share (at 12x FY25 EPS).

Exhibit 1: Variance Analysis

Particulars	Q3FY23	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	1627.0	1750.3	1522.0	6.9	1561.1	4.2	Topline performance impacted by lower executable order book
Other Income	9.8	11.0	10.6	-7.4	10.5	-6.9	
Net Raw material consumed	1205.3	1313.1	1066.2	13.0	1171.2	2.9	
Employee benefit expenses	110.8	87.5	102.3	8.2	73.0	51.9	Included previous year, arrears of ₹ 10 crore as part of salary increments
Other Expenses	102.8	122.5	187.9	-45.3	109.9	-6.5	
EBITDA	208.1	227.1	165.5	25.7	207.0	0.5	
EBITDA Margin(%)	12.8	13.0	10.9	191 bps	13.3	-47 bps	Margin remained healthy with better project mix. Adjusted Margin was 13.4%
Depreciation	27.8	28.0	33.6	-17.3	27.4	1.2	
Interest	16.2	16.0	20.8	-22.2	15.5	4.8	
PBT	173.9	194.1	121.7	42.9	174.6	-0.4	
Taxes	44.5	49.0	40.7	9.2	43.6	2.0	
PAT	129.4	145.1	81.0	59.8	131.1	-1.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25	Comments
	Old	New	% Change	Old	New	% Change	New	
Revenue	7,155.4	6,964.6	-2.7	7,872.7	8,035.1	2.1	8,873.2	Realigned estimates
EBITDA	930.2	940.2	1.1	1,062.8	1,084.7	2.1	1,197.9	
EBITDA Margin (%)	13.0	13.5	50 bps	13.5	13.5	0 bps	13.5	
PAT	543.4	596.4	9.8	632.4	675.1	6.7	748.7	
Diluted EPS (₹)	21.2	23.2	9.8	24.7	26.3	6.7	29.2	

Source: Company, ICICI Direct Research

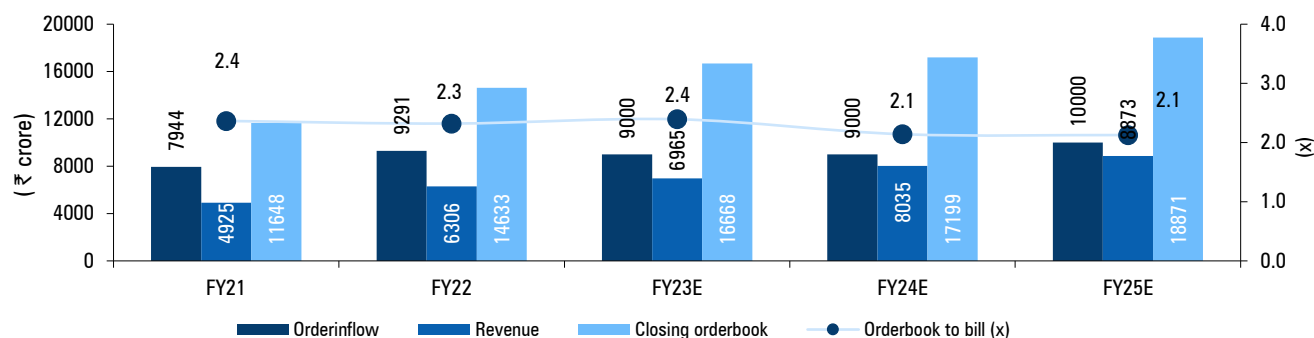
Company Analysis

Exhibit 3: Key projects under construction

Order book	Remaining Value (₹ crore)
Akkalkot Pkg-II (Badadal-Maradgi S)	1,367
Kanpur-Lucknow Expressway Pkg-2	1,315
Sonali – Gorukhpur	1,283
Kanpur-Lucknow Expressway Pkg-1	1,278
Mathura Bypass Pkg-1B (Mathura - Gaju Village)	788
Hardoi Bypass	756
Top 6 projects	6,787
Water and Canal Projects	7,413
Other Projects	3,642
Total	17,842

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	35.0
Gwalior Bhind	100	MPRDC	MP	NH-92	Toll	107.7	2	78.3	78.3	64.0
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	375.0
Narela Industrial Estate	100	DSIIDC	Delhi	NA	Annuity	33.0	NA	35.0	35.0	-
Total								395.1	395.1	804.0

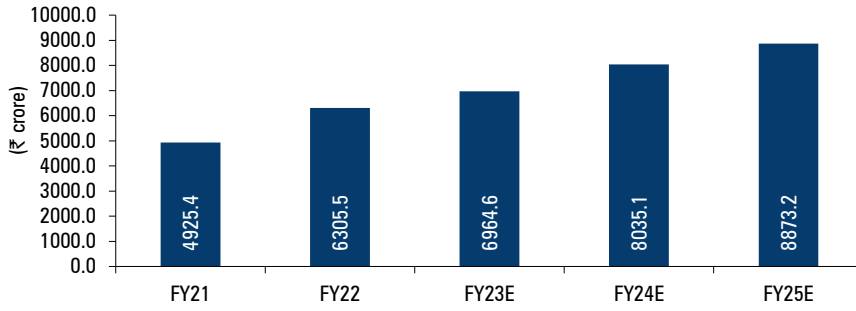
Source: Company, ICICI Direct Research

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	534
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	519
Chakeri-Allahabad	100	NHAI	UP	NH-2	145.1	6	2,018	172	722
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	66	240
Jagdishpur - Faizabad	100	NHAI	UP	NH-330A	60.2	4	1,311	88	350
Mitrasen to Kanpur	100	NHAI	UP	NH-91	60.6	4	1,790	147	570
Unnao-Lalganj	100	NHAI	UP	NH-232A	70.0	4	1,491	79	277
Meerut - Nazibabad	100	NHAI	UP	NH-119	53.9	4	1,207	75	282
Kanpur-Lucknow (Pkg I)	100	NHAI	UP	NH-27	17.5	6	1,618	6	-
Kanpur-Lucknow (Pkg II)	100	NHAI	UP	NH-31/25	45.2	6	1,662	6	-
Sonauli- Gorakhpur	100	NHAI	UP	NH-29E	79.5	4	1,611	-	-
Mathura - Gaju Village	100	NHAI	UP	NH-530B	32.9	4	994	0	-
Hardoi	100	NHAI	UP	NH-731	54.4	4	948	0	-
Gaju Village- Devinagar	100	NHAI	UP	NH-530B	33.0	4	819	0	-
Badadal-Maradgi S	100	NHAI	MH & KN	NH-150C	71.0	6	1,733	0	-
Total							24,097	1,175	4,848

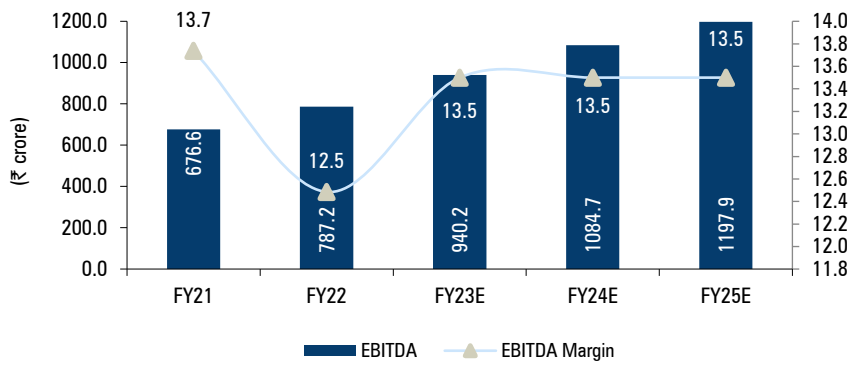
Source: Company, ICICI Direct Research

Exhibit 7: Revenue growth to be healthy



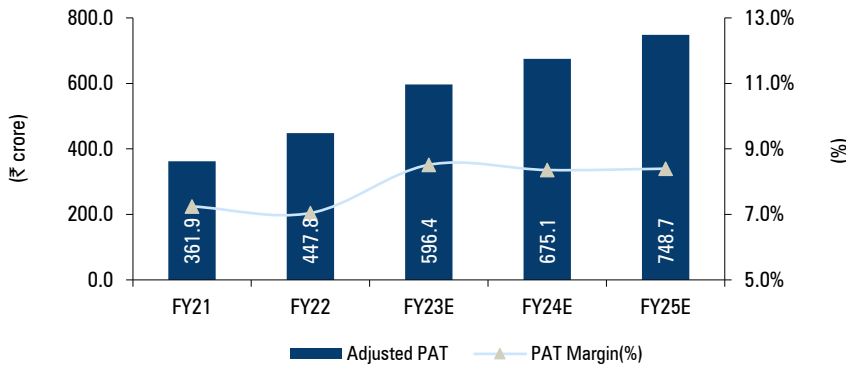
Source: Company, ICICI Direct Research

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 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 ₹ 410/share. We value its construction business at ₹ 350/share (at 12x FY25 EPS).

Exhibit 10: SoTP valuation

Entity	₹ crore	Per share (₹)	Comment
Construction Business	8,984	350	12x FY25 P/E
BOT & HAM Projects	1,571	61	
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	1,176	46	1x Equity Invested till date
Target Price	10,555	411	
Rounded off target price		410	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	6,305.5	6,964.6	8,035.1	8,873.2
Other operating income	-	-	-	-
Other income	54.2	40.0	45.0	45.0
Total Revenues	6,359.7	7,004.6	8,080.1	8,918.2
Raw Material Expense	4,451.7	5,084.1	5,825.5	6,433.1
Employee expenses	342.0	362.2	401.8	443.7
Other Expenses	724.5	578.1	723.2	798.6
Total Operating Exp	5,518.3	6,024.4	6,950.4	7,675.3
EBITDA	787.2	940.2	1,084.7	1,197.9
Interest	80.1	65.5	81.8	88.1
Depreciation	129.9	117.5	145.4	153.8
PBT	631.4	797.3	902.5	1,000.9
Total Tax	183.6	200.9	227.4	252.2
Reported PAT	447.8	596.4	675.1	748.7
Adjusted PAT	361.9	447.8	596.4	675.1
EPS (Diluted)	17.5	23.2	26.3	29.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

₹ crore	FY22	FY23E	FY24E	FY25E
Profit after Tax	447.8	596.4	675.1	748.7
Depreciation	129.9	117.5	145.4	153.8
Other Income	-54.2	-40.0	-45.0	-45.0
Cash Flow before WC changes	787.2	940.2	1,084.7	1,197.9
Net Increase in Current Assets	-689.0	-509.3	-536.3	-419.8
Net Increase in Current Liabilities	196.7	127.7	288.0	225.5
Net CF from Op. Activities	111.3	357.7	609.1	751.3
(Purchase)/Sale of Fixed Assets	-60.1	-120.0	-80.0	-80.0
Purchase of Investment	-66.6	-410.0	-500.0	-500.0
Other Income	54.2	40.0	45.0	45.0
Net CF from Inv.Activities	-72.4	-490.0	-535.0	-535.0
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-80.1	-65.5	-81.8	-88.1
Increase/Decrease in Debt	-183.2	0.0	0.0	0.0
Dividend Paid	-12.8	-12.8	-12.8	-12.8
Net CF from Fin. Activities	-279.5	-78.3	-94.7	-101.0
Net Cash flow	-240.6	-210.6	-20.6	115.4
Opening Cash/ Cash Equiv.	768.2	527.7	317.1	296.5
Closing Cash/ Cash Equiv.	527.7	317.1	296.5	411.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Liabilities				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	3,288.9	3,872.5	4,534.7	5,270.6
Networth	3,340.2	3,923.8	4,586.0	5,321.9
Secured Loan	215.8	215.8	215.8	215.8
Unsecured Loan	-	-	-	-
Total Debt	215.8	215.8	215.8	215.8
Deferred Tax Liability	-	-	-	-
Total Liabilities	3,556.0	4,139.6	4,801.8	5,537.7
Assets				
Gross Block	1,185.0	1,305.0	1,385.0	1,465.0
Net Block	587.6	590.1	524.7	450.9
Capital WIP	-	-	-	-
Non-current Investments	1,205.7	1,615.7	2,115.7	2,615.7
Current Assets				
Inventories	480.8	531.0	612.7	676.6
Sundry Debtors	1,272.8	1,431.1	1,651.1	1,823.3
Loans and Advances	876.4	1,144.9	1,320.8	1,458.6
Other Current Assets	349.3	381.6	440.3	486.2
Cash	527.7	317.1	296.5	411.9
Total Current Assets	3,507.0	3,805.7	4,321.4	4,856.6
Creditors	507.6	572.4	660.4	729.3
Provisions	20.8	22.9	26.5	29.2
Other Current Liabilities	485.4	515.2	594.4	656.4
Other Long Term Liabilities	732.4	763.2	880.6	972.4
Total Current Liabilities	1,746.1	1,873.8	2,161.8	2,387.3
Net Current Assets	1,760.9	1,931.9	2,159.6	2,469.3
Total Assets	3,556.0	4,139.6	4,801.8	5,537.6

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per Share Data				
EPS (Fully Diluted)	17.5	23.2	26.3	29.2
Cash EPS	22.5	27.8	32.0	35.2
BV	130.2	153.0	178.8	207.4
Dividend per share	0.5	0.5	0.5	0.5
Operating Ratios				
EBITDA / Net Sales	12.5	13.5	13.5	13.5
PAT / Net Sales	7.1	8.6	8.4	8.4
Inventory Days	27.8	27.8	27.8	27.8
Debtor Days	73.7	75.0	75.0	75.0
Creditor Days	29.4	30.0	30.0	30.0
Return Ratios				
RoE	13.4	15.2	14.7	14.1
RoCE	20.0	20.8	20.5	19.7
RoIC	21.7	21.5	20.8	20.4
Valuation Ratios				
EV / EBITDA	10.4	8.9	7.8	6.9
P/E	19.0	14.2	12.6	11.3
EV / Net Sales	1.3	1.2	1.0	0.9
Market Cap / Sales	1.3	1.2	1.1	1.0
Price to Book Value	2.5	2.2	1.9	1.6
Turnover Ratios				
Asset turnover	1.8	1.7	1.7	1.6
Gross Block Turnover	5.3	5.3	5.8	6.0
Solvency Ratios				
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.7	1.9	1.9	1.9
Debt / EBITDA	0.3	0.2	0.2	0.2
Quick Ratio	1.4	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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