

Healthy execution; asset monetisation key ahead...

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 enables PNC to deliver projects on-time. PNC has executed 84 major infrastructure projects till date.

- Reported 30.6% revenue CAGR in FY18-23; operating margin was in the range of 13-14%
- Proficient execution, robust return ratios (RoCE: ~20%)

Q4FY23 Results: PNC reported healthy execution during Q4FY23.

- Standalone revenue during Q4FY23 was up ~10.3% YoY to ₹ 2,115 crore, aided by healthy execution
- EBITDA at ₹ 281 crore was up ~25% YoY. EBITDA margin, at 13.3%, was up 157 bps YoY, led by benefits arising from softening in commodity prices
- PAT was up ~33.5% YoY at ₹ 184.5 crore

What should investors do? PNC's share price has grown at ~12% CAGR over the past five years (from ~₹ 176 in May 2018 to ₹ 311 currently).

- We maintain our **BUY** rating on the company. PNC has exhibited healthy execution along with a stable margin trajectory. Medium trigger is asset monetisation, which would free up capital and drive scalability

Target Price and Valuation: We value PNC at ₹ 390/share.

Key triggers for future price performance:

- PNC is likely to be one of the major beneficiaries of a 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 13.5% topline CAGR over FY23-25E 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 ₹ 1140/share



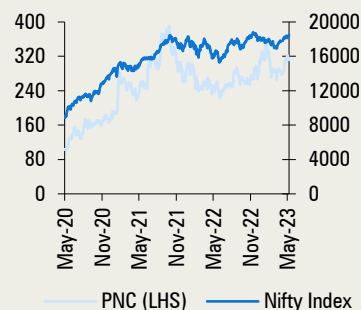
Particulars

Particular	Amount (₹ crore)
Market Cap	8,087
Debt (₹ crore) FY23	450
Cash (₹ crore) FY23	373
EV (₹ crore)	8,164
52 week H/L (₹)	352/ 219
Equity capital	51.3
Face value	₹ 2

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	56.1	56.1	56.1	56.1
DII	28.6	29.1	29.6	29.4
FII	10.5	9.8	9.3	9.5
Other	4.9	5.1	5.0	5.0

Price Chart



Key Risks

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

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Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales	4,877.9	4,925.4	6,305.5	7,060.8	30.6%	8,052.2	9,096.9	13.5%
EBITDA	764.3	676.6	787.2	953.9	24.5%	1,087.0	1,228.1	13.5%
EBITDA Margin (%)	15.7	13.7	12.5	13.5		13.5	13.5	
Adjusted PAT	315.2	361.9	447.8	611.5	19.5%	677.5	770.9	12.3%
EPS (₹)	17.9	14.1	17.5	23.8		26.4	30.1	
P/E (x)	17.3	22.0	17.8	13.0		11.8	10.3	
EV/EBITDA (x)	9.8	11.1	9.7	8.4		7.2	6.3	
RoNW (%)	12.4	12.4	13.4	15.5		14.7	14.4	
RoCE (%)	25.3	19.2	20.0	20.1		19.8	19.4	

Key business highlight and outlook

Order book strong, provides healthy revenue visibility

PNC's order book (OB) at the end of Q4FY23 was at ₹ 15,676 crore. Including the newly won projects (four HAM and one EPC road project worth ₹ 4854 crore orders won in March), Order book was at ₹ 20530 crore, 2.9x book to TTM revenues. Roads contributed ~67% to the overall order book while balance ~33% is contributed by Water and Canal projects. Going forward, the **company has guided for inflows worth ~₹ 10,000-12000 crore during FY24E (vs. ~₹ 4855 crore of projects secured in FY23). The key focus would be on roads projects (70%+) while remaining is likely from non-roads segments like water, railways. Overall, the company has guided for ~15% YoY revenue growth for FY24 with operating margin at ~13-13.5%.**

Well-placed to fund HAM projects; asset monetisation key

At the end of FY23, its standalone gross debt (including debt from own subsidiaries), cash and cash equivalent at the standalone level was at ₹ 450 crore, ₹ 373 crore, respectively. **Going forward, it has balance equity requirement of ₹ 1690 crore to be infused over the next two to three years.** It expects to infuse ₹ 540 crore, ₹ 460 crore, ₹ 355 crore, ₹ 327 crore in FY24, FY25, FY26 and FY27, respectively. **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 potential investors to monetise its assets.** Eleven HAM and one BOT project (Bareilly Almora) are under block to monetise having debt of ~₹ 6900 crore and equity of ~₹ 1700 crore (seven operational; rest likely by next three to four months). It has received offers from four investors. The company indicated that in case of reasonable valuations, parties would be invited for conducting due diligence and accordingly definitive agreement would be signed (expected by Q3FY24 end). The management expects the process of monetisation (including receipt of money) to conclude by FY24-end with receipt of amount.

Key conference call takeaways

- **Inflows Guidance / Bid pipeline:** As per the company, during FY23, NHAI was unable to award 45-48 projects, for which bids are likely to open in June-July 2023. This impacted the company's inflows in FY23. Going ahead, NHAI has the total pipeline of 100 projects valued at ₹ 1 lakh crore (HAM contributes 75% with rest being EPC). The company is also targeting water supply project in UP (phase 4; 14 projects) valued at ₹ 15000 crore (bid due date is June 2, 2023), where it expects ₹ 1,000 crore of work
- **Water segment:** Water and canal projects order book value as on Q4 was at ₹ 6746 crore. Under JJM, PNC has a current executable order book of ₹ 4500 crore. Out of these, the company booked revenue of ₹ 1033 crore till FY23 (₹ 108 crore during Q4FY22; ₹ 925 crore during 9MFY23). **Overall, the management expects revenue of ~₹ 2500 crore during FY24 from JJM in FY24 and remaining in FY25. The margin is expected at ~15-17%**
- **HAM projects portfolio:** PNC has a portfolio of 22 projects with an aggregate project cost of ₹ 18,180 crore. Out of the same 18 HAM projects with an aggregate project cost of ₹ 24,097 crore are under execution/operational. Appointed date is expected in Q4FY24 for four HAM projects. Out of these, the company has achieved PCoD/CoD in six projects, 12 are under construction. Overall, the company has an equity requirement of ₹ 2,942 crore. Out of these, PNC has infused ₹ 1,252 crore equity in its HAM projects till Q3-end and has a balance equity requirement of ₹ 1,690 crore over the next two to three years. It expects to infuse ₹ 540 crore, ₹ 460 crore, ₹ 355 crore, ₹ 327 crore in FY24, FY25, FY26 and FY27, respectively. 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 Aligarh Kanpur HAM project in FY24. For Aligarh Moradabad, the process has been getting delayed for bonus but the company is expecting ₹ 15 crore

- **Working capital:** Net working capital cycle at the end of Q4FY23 increased to 87 days (vs. 82 days at Q3FY23-end) with debtors at 99 days (at Q4FY23-end vs 67 at Q3FY23-end). The company indicated that bills have been raised in April and May and currently debtor days have come to 78-79 days. Going forward, the management expects management expects debtor days to reduce to 75 days.
- **Capex:** PNC has guided for capex of ₹ 100-120 crore during FY24E.

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 will have no hiccups. Furthermore, with asset monetisation plan fructification (it is looking to monetise its BOT/HAM assets and expects fructification by Q3FY24), the growth potential will increase. We maintain our BUY rating with SoTP target price of ₹ 390/share. We value its construction business at ₹ 331/share (at 11x FY25 EPS).

Exhibit 1: Variance Analysis

Particulars	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	2114.6	2018.4	1917.3	10.3	1627.0	30.0	Topline performance driven by superior execution
Other Income	10.5	12.2	8.5	23.8	9.8	7.6	
Net Raw material consumed	1596.2	1418.0	1354.1	17.9	1205.3	32.4	
Employee benefit expenses	76.8	103.1	80.3	-4.3	110.8	-30.6	
Other Expenses	160.6	229.9	258.2	-37.8	102.8	56.2	
EBITDA	281.0	267.4	224.7	25.1	208.1	35.1	
EBITDA Margin(%)	13.3	13.2	11.7	157 bps	12.8	50 bps	Margin remained healthy with better project mix and benign raw material
Depreciation	27.9	35.3	32.1	-13.0	27.8	0.4	
Interest	14.7	16.3	17.0	-13.7	16.2	-9.4	
PBT	249.0	227.9	184.1	35.2	173.9	43.2	
Taxes	64.5	58.6	45.9	40.5	44.5	45.1	
PAT	184.5	169.4	138.2	33.5	129.4	42.5	

Source: Company, ICICI Direct Research

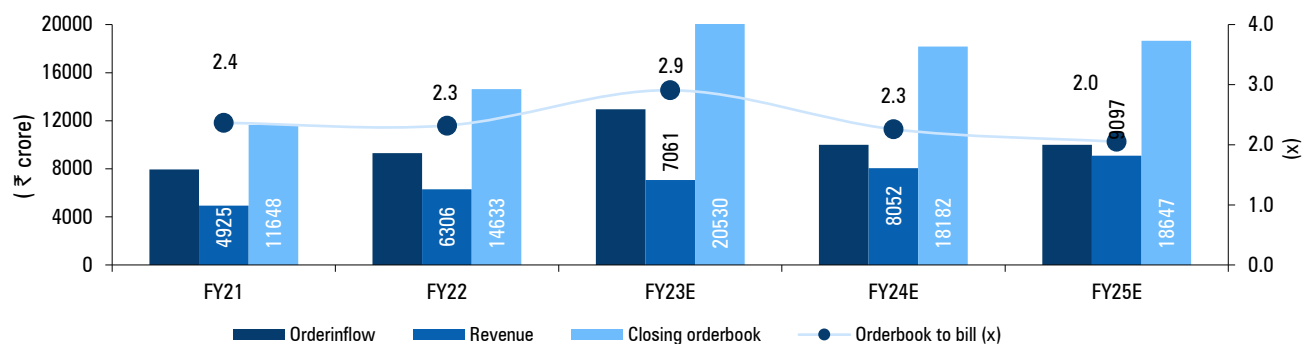
Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	New	New	% Change	
Revenue	8,035.1	8,052.2	0.2	8,873.2	9,096.9	2.5	Realigned estimates
EBITDA	1,084.7	1,087.0	0.2	1,197.9	1,228.1	2.5	
EBITDA Margin (%)	13.5	13.5	0 bps	13.5	13.5	0 bps	
PAT	675.1	677.5	0.4	748.7	770.9	3.0	
Diluted EPS (₹)	26.3	26.4	0.4	29.2	30.1	3.0	

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 3: Strong order book position



Source: Company, ICICI Direct Research

Exhibit 4: 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	285
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	550
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	777
Aligarh Kanpur	100	NHAI	UP	NH-91	45.0	4	1,110	131	474
Challakere - Hariyur	100	NHAI	Karnataka	NH-150A	55.7	4	1,023	77	280
Jagdishpur - Faizabad	100	NHAI	UP	NH-330A	60.2	4	1,311	105	420
Mitrasen to Kanpur	100	NHAI	UP	NH-91	60.6	4	1,790	162	645
Unnao-Lalganj	100	NHAI	UP	NH-232A	70.0	4	1,491	83	327
Meerut - Nazibabad	100	NHAI	UP	NH-119	53.9	4	1,207	94	375
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	4	-
Hardoi	100	NHAI	UP	NH-731	54.4	4	948	1	-
Gaju Village- Devinagar	100	NHAI	UP	NH-530B	33.0	4	819	1	-
Badadal-Maradgi S	100	NHAI	MH & KN	NH-150C	71.0	6	1,733	6	-
Singraur Uphar - Baranpur Kadipur Ichauli (Package-III)	100	Morth	UP	NH-731A	25.5	4	819	-	-
Varanasi - Ranchi - Kolkata Highway (Pkg-2)	100	NHAI	Bihar		27.0	6	891	-	-
Varanasi - Ranchi - Kolkata Highway (Pkg-3)	100	NHAI	Bihar		36.0	6	1,113	-	-
Varanasi - Ranchi - Kolkata Highway (Pkg-6)	100	NHAI	Bihar		35.2	6	1,260	-	-
Total							28,180	1,252	5,186

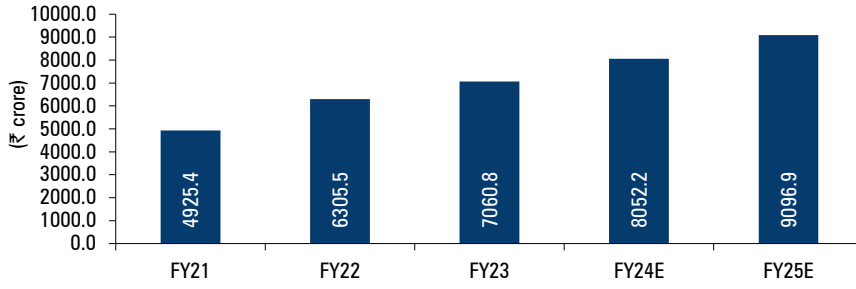
Source: Company, ICICI Direct Research

Exhibit 5: BOT project summary

Project	% Stake	Authority	State	Stretch	Type	Kms	Lanes	Equity inv (₹ crore)	PNC's share of inv equity (₹ crore)	Debt o/s (₹ crore)
Kanpur Kabrai	100	NHAI	UP	NH-86	Toll	123.0	2	67.5	67.5	27.0
Gwalior Bhind	100	MPRDC	MP	NH-92	Toll	107.7	2	78.3	78.3	55.0
Bareilly Almora*	100	UPSHA	UP	SH-37	Toll	54.0	4	74.6	74.6	323.0
Rae Bareilly Jaunpur*	100	NHAI	UP	NH-23	Annuity	166.4	2	139.6	139.6	356.0
Narela Industrial Estate	100	DSIIDC	Delhi	NA	Annuity	33.0	NA	35.0	35.0	-
Total								395.1	395.1	761.0

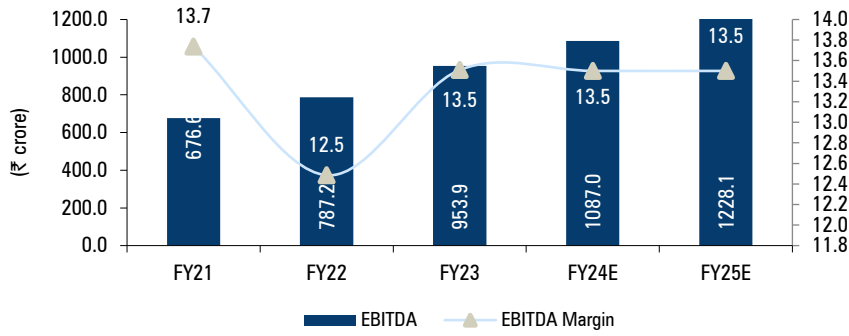
Source: Company, ICICI Direct Research

Exhibit 6: Revenue growth to be healthy



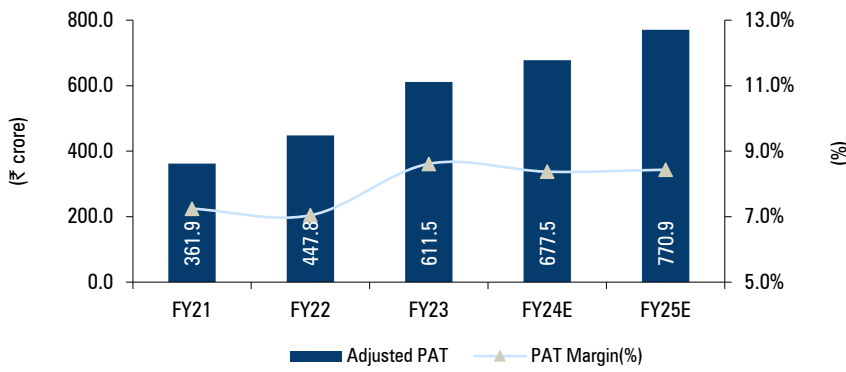
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 8: 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 will have no hiccups. Furthermore, with asset monetisation plan fructification (it is looking to monetise its BOT/HAM assets and expects some development by Q3FY24), the growth potential will increase. We maintain our BUY rating with SoTP target price of ₹ 390/share. We value its construction business at ₹ 331/share (at 11x FY25 EPS).

Exhibit 9: SoTP valuation

Entity	₹ crore	Per share (₹)	Comment
Construction Business	8,480	331	12x FY25 P/E
BOT & HAM Projects	1,647	64	
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	1,252	49	1x Equity Invested till date
Target Price	10,127	395	
Rounded off target price		390	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	6,305.5	7,060.8	8,052.2	9,096.9
Other operating income	-	-	-	-
Other income	54.2	38.3	40.0	45.0
Total Revenues	6,359.7	7,099.1	8,092.2	9,141.9
Raw Material Expense	4,451.7	5,262.4	5,837.8	6,595.2
Employee expenses	342.0	335.9	402.6	454.8
Other Expenses	724.5	508.7	724.7	818.7
Total Operating Exp	5,518.3	6,107.0	6,965.1	7,868.8
EBITDA	787.2	953.9	1,087.0	1,228.1
Interest	80.1	63.8	85.3	90.5
Depreciation	129.9	110.0	127.4	142.2
PBT	631.4	818.4	914.4	1,040.4
Total Tax	183.6	206.9	236.8	269.5
Reported PAT	447.8	611.5	677.5	770.9
Adjusted PAT	447.8	611.5	677.5	770.9
EPS (Diluted)	17.5	23.8	26.4	30.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

₹ crore	FY22	FY23	FY24E	FY25E
Profit after Tax	447.8	611.5	677.5	770.9
Depreciation	129.9	110.0	127.4	142.2
Other Income	-54.2	-38.3	-40.0	-45.0
Cash Flow before WC changes	787.2	953.9	1,087.0	1,228.1
Net Increase in Current Assets	-689.0	-861.7	-450.1	-556.7
Net Increase in Current Liabilities	196.7	-67.2	500.5	282.8
Net CF from Op. Activities	111.3	-181.9	900.6	684.6
(Purchase)/Sale of Fixed Assets	-60.1	-55.2	-80.0	-80.0
Purchase of Investment	-66.6	-115.7	-500.0	-500.0
Other Income	54.2	38.3	40.0	45.0
Net CF from Inv.Activities	-72.4	-132.6	-540.0	-535.0
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-80.1	-63.8	-85.3	-90.5
Increase/Decrease in Debt	-183.2	234.2	0.0	0.0
Dividend Paid	-12.8	-12.8	-12.8	-12.8
Net CF from Fin. Activities	-279.5	160.3	-98.1	-103.3
Net Cash flow	-240.6	-154.3	262.5	46.3
Opening Cash/ Cash Equiv.	768.2	527.7	373.4	635.9
Closing Cash/ Cash Equiv.	527.7	373.4	635.9	682.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Liabilities				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	3,288.9	3,890.3	4,555.0	5,313.1
Networth	3,340.2	3,941.6	4,606.3	5,364.4
Secured Loan	215.8	450.0	450.0	450.0
Unsecured Loan	-	-	-	-
Total Debt	215.8	450.0	450.0	450.0
Deferred Tax Liability	-	-	-	-
Total Liabilities	3,556.0	4,391.5	5,056.2	5,814.3
Assets				
Gross Block	1,140.5	1,194.3	1,274.3	1,354.3
Net Block	587.6	531.4	483.9	421.7
Capital WIP	-	-	-	-
Non-current Investments	1,205.7	1,321.5	1,821.5	2,321.5
Current Assets				
Inventories	480.8	764.4	871.7	984.8
Sundry Debtors	1,272.8	1,905.5	1,654.6	1,869.2
Loans and Advances	876.4	818.7	1,323.6	1,495.4
Other Current Assets	349.3	352.4	441.2	498.5
Cash	527.7	373.4	635.9	682.3
Total Current Assets	3,507.0	4,214.5	4,927.1	5,530.1
Creditors	507.6	679.0	661.8	747.7
Provisions	20.8	34.6	39.5	44.6
Other Current Liabilities	485.4	352.1	595.6	672.9
Other Long Term Liabilities	732.4	613.1	882.4	996.9
Total Current Liabilities	1,746.1	1,678.9	2,179.4	2,462.2
Net Current Assets	1,760.9	2,535.5	2,747.7	3,068.0
Total Assets	3,556.0	4,391.5	5,056.2	5,814.3

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per Share Data				
EPS (Fully Diluted)	17.5	23.8	26.4	30.1
Cash EPS	22.5	28.1	31.4	35.6
BV	130.2	153.6	179.6	209.1
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	8.7	8.4	8.5
Inventory Days	27.8	39.5	39.5	39.5
Debtor Days	73.7	98.5	75.0	75.0
Creditor Days	29.4	35.1	30.0	30.0
Return Ratios				
RoE	13.4	15.5	14.7	14.4
RoCE	20.0	20.1	19.8	19.4
RoIC	21.7	21.0	21.7	21.2
Valuation Ratios				
EV / EBITDA	9.9	8.6	7.3	6.4
P/E	18.1	13.2	11.9	10.5
EV / Net Sales	1.2	1.2	1.0	0.9
Market Cap / Sales	1.3	1.1	1.0	0.9
Price to Book Value	2.4	2.1	1.8	1.5
Turnover Ratios				
Asset turnover	1.8	1.6	1.6	1.6
Gross Block Turnover	5.5	5.9	6.3	6.7
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.7	2.3	2.0	2.0
Debt / EBITDA	0.3	0.5	0.4	0.4
Quick Ratio	1.4	1.8	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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