

**INFRASTRUCTURE**

Q3FY20 Preview

10 January 2020

**Execution a mix bag**

**Moderate execution due to prolonged monsoon and lack of order wards in the past year is expected to contain revenue growth at ~9% YoY for our infrastructure universe in Q3FY20. EBITDA margins should hold firm, but earnings are forecast to decline ~12% YoY on higher interest and depreciation. PNCL and HGIEL are likely to buck the trend with stronger earnings. DBL, HGIEL, KNRC and ASBL saw order inflows in Q3 vs. nil for other coverage stocks. We continue to prefer PNCL, HGIEL, KNRC and ASBL.**

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**Execution to remain moderate:** We expect revenue growth of ~9% YoY for our coverage stocks in Q3 mainly due to the extended monsoon season hampering the pace of project execution. PNCL is likely to clock robust revenue growth of ~78% YoY led by a high executable order backlog and low base. EBITDA margins for our coverage look to be stable in the range of 12-19%, while adjusted PAT margins are expected to decline by ~150bps YoY to 6.4% due to higher interest and depreciation.

**Moderate order inflows:** Order inflows failed to revive after elections (Centre as-well-as states) as expected, due to land acquisition issues and delayed disbursals amid a change of guard at various state governments. We believe NHAI awarding could pick up from end Jan'20. The book-to-bill ratio for road developers remains strong at 2.2-2.9x as on Dec'19 despite subdued ordering.

**Award of appointed dates a key positive:** As at end-Dec'19, ADs for only 7 of the 45 HAM projects won by our coverage universe (excluding 2 won in Q3) were pending from NHAI (vs. 12 as at end-Sep'19), leading to a better executable backlog for most companies. Our management interactions suggest the balance dates could be awarded in Q4 (5 projects)/FY21 (2 projects).

**Quarterly monitorable:** The key quarterly monitorable to watch for would be the leverage position, working capital cycle, outlook on the award of ADs for the remaining projects, perspective on order inflows, progress on asset monetisation plans and segmental diversification plans to support growth.

**Stay selective:** Execution visibility on the existing order backlog remains intact, albeit with some lag due to delayed ADs, even as India's road sector holds immense opportunities. We believe players with lean balance sheets will benefit the most when ordering activity revives. We stay selective and prefer PNCL, HGIEL, KNRC and ASBL.

**RECOMMENDATION SNAPSHOT**

Ticker	Price	Target	Rating
ASBL IN	102	190	BUY
DBL IN	405	560	BUY
HGINFRA IN	263	390	BUY
KNRC IN	255	340	BUY
PNCL IN	194	245	BUY
SADE IN	123	160	BUY

Price &amp; Target in Rupees | Price as of 9 Jan 2020

**ORDER BACKLOG as on Dec'19E\***

Ticker	Backlog (Rs bn)	Book-to-bill (x)	Executable (%)
ASBL IN	93.9	2.4	80.8
DBL IN	209.8	2.3	88.7
HGINFRA IN	61.3	2.8	53.2
KNRC IN	65.6	2.9	70.4
PNCL IN	105.8	2.2	81.1
SADE IN	80.2	2.5	100.0

Source: Company, BOBCAPS Research |

\*Includes L1 projects



**FIG 1 – BOBCAPS INFRASTRUCTURE (ROADS) UNIVERSE: STANDALONE Q3FY20 ESTIMATES**

Name of company Standalone (Rs mn)	Revenue			% change		EBIDTA			% change		PBT			% change		Adjusted PAT			% change		EPS (Rs)			% change	
	Q3FY20E	Q3FY19	Q2FY20	YoY	QoQ	Q3FY20E	Q3FY19	Q2FY20	YoY	QoQ	Q3FY20E	Q3FY19	Q2FY20	YoY	QoQ	Q3FY20E	Q3FY19	Q2FY20	YoY	QoQ	Q3FY20E	Q3FY19	Q2FY20	YoY	QoQ
ASBL	10,714	10,651	8,223	0.6	30.3	1,365	1,487	1,229	(8.2)	11.1	1,180	1,301	1,118	(9.3)	5.5	867	1,019	727	(14.9)	19.3	3.1	3.6	2.6	(14.9)	19.3
DBL	24,959	24,872	18,094	0.3	37.9	4,368	4,407	3,215	(0.9)	35.9	1,838	2,213	698	(17.0)	163.3	1,286	2,069	577	(37.8)	122.8	9.4	15.1	4.2	(37.8)	122.8
HGIEL	5,862	5,506	4,742	6.5	23.6	881	806	733	9.3	20.1	580	523	474	10.9	22.5	434	352	386	23.2	12.6	6.7	5.4	5.9	23.2	12.6
KNRC	5,250	4,489	5,230	17.0	0.4	993	901	1,077	10.2	(7.8)	502	485	542	3.4	(7.3)	438	411	342	6.6	28.0	3.1	2.9	2.4	6.6	28.0
PNCL	12,950	7,270	10,707	78.1	20.9	1,790	1,021	1,477	75.2	21.1	1,300	661	1,013	96.7	28.4	889	473	619	87.9	43.7	3.5	1.8	2.4	87.9	43.7
SADE	8,000	9,255	5,651	(13.6)	41.6	973	1,108	696	(12.2)	39.8	511	703	276	(27.3)	85.5	399	563	259	(29.1)	54.2	2.3	3.3	1.5	(29.1)	54.2
<b>Total</b>	<b>67,734</b>	<b>62,044</b>	<b>52,647</b>	<b>9.2</b>	<b>28.7</b>	<b>10,369</b>	<b>9,731</b>	<b>8,426</b>	<b>6.6</b>	<b>23.1</b>	<b>5,911</b>	<b>5,887</b>	<b>4,120</b>	<b>0.4</b>	<b>43.5</b>	<b>4,314</b>	<b>4,888</b>	<b>2,910</b>	<b>(11.7)</b>	<b>48.3</b>	-	-	-	-	-

Source: Company, BOBCAPS Research

**FIG 2 – MARGIN TREND**

Name of company	EBIDTA margin (%)			PBT margin (%)			Adjusted PAT margin (%)		
	Q3FY20E	Q3FY19	Q2FY20	Q3FY20E	Q3FY19	Q2FY20	Q3FY20E	Q3FY19	Q2FY20
ASBL	12.7	14.0	14.9	11.0	12.2	13.6	8.1	9.6	8.8
DBL	17.5	17.7	17.8	7.4	8.9	3.9	5.2	8.3	3.2
HGIEL	15.0	14.6	15.5	9.9	9.5	10.0	7.4	6.4	8.1
KNRC	18.9	20.1	20.6	9.6	10.8	10.4	8.3	9.2	6.5
PNCL	13.8	14.0	13.8	10.0	9.1	9.5	6.9	6.5	5.8
SADE	12.2	12.0	12.3	6.4	7.6	4.9	5.0	6.1	4.6
<b>Total</b>	<b>15.3</b>	<b>15.7</b>	<b>16.0</b>	<b>8.7</b>	<b>9.5</b>	<b>7.8</b>	<b>6.4</b>	<b>7.9</b>	<b>5.5</b>

Source: Company, BOBCAPS Research

**FIG 3 – ORDER BACKLOG TREND**

Company (Rs bn)	Order backlog (including L1 projects)											Book to bill ratio (x) as on Dec'19E
	Jun'17	Sep'17	Dec'17	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19	Jun'19	Sep'19	Dec'19E	
ASBL	64.3	61.1	59.4	119.1	107.8	97.6	95.4	96.6	90.4	97.5	93.9	2.4
DBL	156.3	142.0	123.6	238.8	240.9	239.4	231.0	211.7	190.3	241.5	209.8	2.3
HGIEL	-	-	-	46.1	53.1	48.8	43.5	62.2	57.1	53.2	61.3	2.8
KNRC	33.4	35.9	44.8	63.0	59.6	58.1	55.2	59.0	65.2	66.8	65.6	2.9
PNCL	86.7	103.0	98.4	102.2	124.5	119.5	138.0	131.5	118.9	118.7	105.8	2.2
SADE	83.8	77.2	96.4	132.5	137.1	137.4	128.7	119.8	108.1	95.2	80.2	2.5

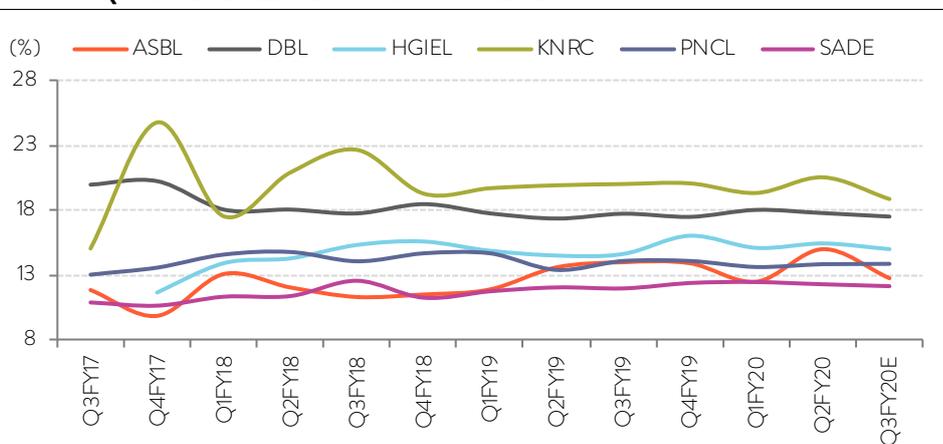
Source: Company, BOBCAPS Research

**FIG 4 – KEY HIGHLIGHTS FOR THE QUARTER**

Company	Comments
<b>Ashoka Buildcon (ASBL)</b>	<ul style="list-style-type: none"> <li>Expect subdued revenue growth of 0.6% YoY due to the extended monsoon</li> <li>Construction revenue is expected to grow by 0.5% YoY to Rs 10.2bn</li> <li>Expect increase in gross debt by ~Rs 500mn QoQ to ~Rs 5.5bn</li> <li>Margins expected to decline by ~120 bps YoY to 12.7%, due to favourable revenue mix last year</li> <li>Received AD for two NHAI HAM projects (Tumkur-Shivamoga package I &amp; II)</li> <li>Order inflows stood at Rs 20.4bn (includes Bundelkhand Expressway project / Smart City project / Kandi-Ramsanpalle HAM project)</li> <li>Toll collection across projects on a like to like basis is expected to grow by ~4% YoY</li> </ul>
<b>Dilip Buildcon (DBL)</b>	<ul style="list-style-type: none"> <li>Led by delay in award of ADs and extended monsoon, the revenue growth is expected to remain subdued at 0.3% YoY</li> <li>With the receipt of AD for the remaining two HAM projects, ADs now in place for all the 12 HAM projects</li> <li>Margins expected to decline by ~20 bps YoY to 17.5%, but largely in line with the assumption of full year</li> <li>Order inflows stood at Rs 31.8bn (includes Bundelkhand Expressway project / Gorakhpur Link Expressway project/ Rajkot Greenfield airport project)</li> </ul>
<b>HG Infra Engineering (HGIEL)</b>	<ul style="list-style-type: none"> <li>Expect moderate revenue growth of 6.5% YoY due to execution at the Gurgaon-Sohna HAM project was halted for 40 days in Q3 due to a construction ban in Delhi-NCR</li> <li>Margins expected to improve by ~40 bps YoY to 15%, led by better revenue mix</li> <li>Received AD for the Delhi-Vadodara greenfield section, Pkg 4 (EPC project) and we expect ~Rs 500mn of execution in Q3</li> <li>Order inflows stood at Rs 14bn (includes Adani Road Transport subcontracting work: Mancherial-Repallewada project / Rewari Bypass HAM project)</li> </ul>
<b>KNR Constructions (KNRC)</b>	<ul style="list-style-type: none"> <li>Expect revenue growth of 17% YoY on a low base, while the sequentially it remains flat due to the prolonged monsoon impacting the execution of HAM projects and land acquisition issue on Navayuga Engineering irrigation project where the work remains stalled</li> <li>Strong execution expected from the irrigation project awarded by Megha Engineering and we expect revenue of ~Rs 1.25bn</li> <li>Margins expected to decline by ~115 bps YoY to 18.9%, but largely in line with the assumption of full year</li> <li>Order inflows stood at Rs 4.1bn (includes two projects for comprehensive road maintenance from GMHC)</li> </ul>
<b>PNC Infratech (PNRC)</b>	<ul style="list-style-type: none"> <li>Robust execution momentum to continue backed by award of ADs in six out of seven HAM projects. Expect revenue growth of 78.1% YoY albeit on a low base</li> <li>Margins forecast to remain unchanged sequentially</li> <li>Traffic growth expected to remain strong albeit on a lower base and we expect gross toll collection growth of 18.5% YoY</li> </ul>
<b>Sadbhav Engineering (SADE)</b>	<ul style="list-style-type: none"> <li>Expect degrowth in revenue due to termination of projects (3 HAM projects terminated over Q2-Q3) due to land acquisition issues and hence a low executable order backlog. We expect decline in revenue by 13.6% YoY</li> <li>Margins expected to grow by ~20 bps YoY to 12.2%, but largely in line with the assumption of full year</li> <li>Expect gross standalone debt to remain elevated at ~Rs 16bn, resulting in higher interest cost outgo</li> </ul>

Source: Company, BOBCAPS Research

**FIG 5 – QUARTERLY EBITDA MARGIN TREND**



Source: Company, BOBCAPS Research

**FIG 6 – KEY FINANCIALS (STANDALONE)**

Company YE March	Revenue (Rs bn)				EBITDA (Rs bn)				PBT (Rs bn)				EBITDA margins (%)				Adjusted EPS (Rs)				ROE (%)				ROCE (%)			
	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
ASBL	38.2	45.1	51.5	55.1	5.2	5.8	6.6	6.9	4.6	5.0	5.6	5.7	13.5	12.8	12.9	12.5	10.2	12.5	14.9	15.0	16.1	14.9	15.3	13.5	22.2	19.3	19.6	18.5
DBL	91.2	98.5	110.4	123.6	16.0	17.4	19.4	21.7	8.0	7.4	9.0	11.0	17.6	17.7	17.5	17.5	55.9	38.2	44.9	54.7	26.9	15.1	15.3	16.0	21.6	20.1	21.6	22.7
HGIEL	20.1	23.9	30.1	34.6	3.0	3.6	4.5	5.2	1.9	2.4	3.1	3.6	15.1	15.0	15.0	15.0	19.0	27.5	35.8	41.8	16.3	22.0	26.7	27.1	20.6	24.0	24.5	22.7
KNRC	21.4	23.7	29.2	33.1	4.3	4.2	5.1	5.8	2.7	2.3	2.9	3.5	20.0	17.5	17.5	17.5	18.7	15.4	15.7	18.3	19.2	11.9	12.7	13.1	18.9	14.2	15.7	16.9
PNCL	30.7	50.6	61.2	63.9	4.3	7.0	8.5	8.8	3.1	5.1	6.3	6.5	14.1	13.7	13.8	13.8	12.7	19.5	17.1	17.7	11.9	14.6	15.6	14.0	15.2	19.8	20.1	18.8
SADE	35.5	34.0	37.7	40.6	4.3	4.2	4.6	5.0	2.6	2.1	2.7	3.1	12.1	12.2	12.2	12.2	10.9	9.7	11.7	13.2	9.5	7.9	8.8	9.2	9.8	8.4	9.1	9.5

Source: Company, BOBCAPS Research

**FIG 7 – VALUATION SUMMARY (STANDALONE)**

YE March Company	Sep'19 Promoter holding (%)	Price (Rs)**	M Cap (Rs bn)	Rating	TP (Rs)	Upside (%)	P/E (x)			Value of assets (Rs)	Implied P/E (x)*			EV/EBITDA (x)*			P/BV (x)		
							FY20E	FY21E	FY22E		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ASBL	54.3	102	29	BUY	190	87.1	8.1	6.8	6.8	70	2.6	2.2	2.2	3.7	3.0	2.6	1.1	1.0	0.9
DBL	75.0	405	56	BUY	560	38.3	10.6	9.0	7.4	117	7.5	6.4	5.3	4.4	3.9	3.3	1.5	1.3	1.1
HGIEL	73.9	263	17	BUY	390	46.3	9.6	7.4	6.3	45	7.9	6.1	5.2	5.0	3.7	3.0	2.1	1.6	1.3
KNRC	55.2	255	39	BUY	340	33.6	19.7	16.2	13.9	84	13.3	10.9	9.3	7.1	5.3	4.2	2.2	1.9	1.7
PNCL	56.1	194	51	BUY	245	26.6	14.4	11.3	10.9	50	10.7	8.4	8.1	6.7	5.3	4.7	1.9	1.6	1.4
SADE	46.6	123	21	BUY	160	29.9	12.6	10.6	9.3	43	8.2	6.9	6.1	7.2	6.1	5.4	1.0	0.9	0.8

Source: Company, BOBCAPS Research | \*Ex of investments in SPV's | \*\*Price as of 9 Jan 2020

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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