

BUY

TP: Rs 245 | ▲ 25%

PNC INFRA TECH

Infrastructure

07 February 2020

Strong execution; order inflows holds key for growth beyond FY21

PNC Infratech's (PNCL) Q3FY20 revenue grew 68% YoY. EBITDA margin stood at 14.1% (13.8% est.), while PAT at Rs 771mn was up 63% YoY but below our estimate of Rs 889mn due to higher interest cost. The Dec'19 order backlog stood at Rs 107bn or 2.3x TTM revenues (incl. L1 projects). Gross debt declined QoQ to Rs 3.5bn led by mobilisation advances and claim proceeds. We trim FY20/FY21 earnings by 1%/3% and maintain BUY with an unchanged Mar'21 TP of Rs 245.

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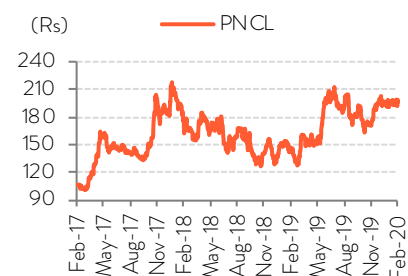
Healthy pace of execution: Revenue grew 68% YoY to Rs 12.2bn (Rs 12.9bn est.) as execution picked up pace on the HAM projects of Aligarh- Kanpur/ Jhansi Pkg I and the Mumbai-Nagpur Expressway/Purvanchal Expressway EPC contracts. We expect a revenue CAGR of 28% over FY19-FY22, with management guiding for 60%/20% growth in FY20/FY21.

| | |
|------------------|----------------|
| Ticker/Price | PNCL IN/Rs 196 |
| Market cap | US\$ 705.4mn |
| Shares o/s | 257mn |
| 3M ADV | US\$ 0.8mn |
| 52wk high/low | Rs 219/Rs 126 |
| Promoter/FPI/DII | 56%/6%/21% |

Source: NSE

Margin beat: A favourable revenue mix aided EBITDA margins of 14.1% in Q3 vs. 13.8% estimated. Employee cost saw a sharp rise of 55% YoY/46% QoQ to Rs 853mn due to payment of arrears for 11 months on account of wage revision. Interest cost also grew sharply by 114% YoY/62% QoQ to Rs 401mn due to interest on mobilisation advances.

STOCK PERFORMANCE



Source: NSE

Leverage at comfortable levels: Led by receipt of mobilisation advances and proceeds from claims, PNCL's gross debt position improved to Rs 3.5bn as on Dec'19 vs. Rs 3.8bn as on Sep'19 (net cash position of Rs 900mn with cash & bank balance at Rs 4.4bn). Management has guided for gross debt of ~Rs 3.9bn as on Mar'20 (Rs 3.7bn as on Mar'19).

Maintain BUY: We downgrade our FY20/FY21 EPS estimates by 1%/3% (no material change for FY22) to factor in higher interest cost and taxes. Our Mar'21 SOTP-based TP remains at Rs 245.

KEY FINANCIALS (STANDALONE)

| Y/E 31 Mar | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|--------|--------|--------|--------|--------|
| Total revenue (Rs mn) | 17,983 | 30,716 | 50,147 | 61,309 | 64,378 |
| EBITDA (Rs mn) | 2,606 | 4,320 | 6,918 | 8,471 | 8,892 |
| Adj. net profit (Rs mn) | 1,604 | 2,326 | 3,400 | 4,275 | 4,552 |
| Adj. EPS (Rs) | 6.3 | 9.1 | 13.3 | 16.7 | 17.7 |
| Adj. EPS growth (%) | (13.0) | 45.0 | 46.2 | 25.8 | 6.5 |
| Adj. ROAE (%) | 9.5 | 11.9 | 14.4 | 15.2 | 14.1 |
| Adj. P/E (x) | 31.3 | 21.6 | 14.8 | 11.7 | 11.0 |
| EV/EBITDA (x) | 19.3 | 11.8 | 7.3 | 6.2 | 6.2 |

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – STANDALONE QUARTERLY & 9M PERFORMANCE

| Particulars (Rs mn) | Q3FY20 | Q3FY19 | YoY (%) | Q2FY20 | QoQ (%) | 9MFY20 | 9MFY19 | YoY (%) |
|-------------------------|---------------|--------------|-------------|----------------|---------------|---------------|---------------|--------------|
| Revenue | 12,180 | 7,270 | 67.5 | 10,707* | 13.8 | 36,105 | 19,959 | 80.9 |
| Total Expenses | 10,468 | 6,249 | 67.5 | 9,230 | 13.4 | 31,120 | 17,150 | 81.5 |
| EBITDA | 1,712 | 1,021 | 67.6 | 1,477 | 15.9 | 4,985 | 2,809 | 77.5 |
| EBITDA margin (%) | 14.1 | 14.0 | 1bps | 13.8 | 26bps | 13.8 | 14.1 | (26) |
| Other income | 144 | 68 | 110.7 | 91* | 57.3 | 370 | 181 | 103.9 |
| Depreciation | 326 | 241 | 35.2 | 309 | 5.7 | 940 | 640 | 46.8 |
| EBIT | 1,529 | 848 | 80.3 | 1,260 | 21.4 | 4,415 | 2,350 | 87.9 |
| EBIT margin (%) | 12.6 | 11.7 | 89bps | 11.8 | 79bps | 12.2 | 11.8 | 45bps |
| Interest | 401 | 187 | 114.3 | 247 | 62.4 | 828 | 447 | 85.2 |
| PBT | 1,128 | 661 | 70.7 | 1,013 | 11.4 | 3,587 | 1,903 | 88.5 |
| Tax provision | 356 | 188 | 90.0 | 394 | (9.4) | 1,195 | 319 | 274.9 |
| Current tax | 383 | 187 | 104.7 | 414 | (7.4) | 1,230 | 326 | 277.5 |
| Deferred tax | (27) | 0 | (7,979.1) | (20) | nm | (35) | (7) | 396.3 |
| Effective tax rate (%) | 31.6 | 28.4 | 322bps | 38.9 | (726bps) | 33.3 | 16.8 | 1,656bps |
| Adjusted PAT | 771 | 473 | 63.0 | 619 | 24.6 | 2,392 | 1,584 | 51.0 |
| Exceptional | - | - | NM | 1,450* | NM | 1,450 | 266 | 446.1 |
| Reported PAT | 771 | 473 | 63.0 | 2,069 | (62.7) | 3,842 | 1,850 | 107.7 |
| Adjusted PAT margin (%) | 6.3 | 6.5 | (18) | 5.8 | 55bps | 6.6 | 7.9 | (131) |
| EPS (Rs) | 3.0 | 1.8 | 63.0 | 2.4 | 24.6 | 9.3 | 6.2 | 51.0 |

Source: Company, BOBCAPS Research | *Revenue adjusted for claim amount of Rs 1.1bn and other income adjusted for interest on claim at Rs 356mn and both the line items restated in exceptions

FIG 2 – EXECUTABLE ORDER BACKLOG SHARE AT 81%

| (Rs mn) | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 |
|--|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Order inflow | 36,001 | - | - | - | 25,200 | 48,985 | - | 10,620 | - |
| Order backlog | 79,760 | 73,180 | 66,170 | 61,190 | 79,650 | 1,22,100 | 1,09,500 | 98,770 | 86,960 |
| Book to bill (x) | 5.5 | 4.1 | 3.1 | 2.5 | 3.0 | 4.0 | 3.0 | 2.4 | 1.9 |
| Order backlog including L1 projects | 98,420 | 1,02,170 | 1,24,505 | 1,19,525 | 1,37,985 | 1,31,450 | 1,18,850 | 1,18,740 | 1,06,930 |
| Book to bill (x) | 6.8 | 5.7 | 5.8 | 4.9 | 5.1 | 4.3 | 3.2 | 2.8 | 2.3 |

Source: Company, BOBCAPS Research

Earnings call highlights

- **FY20 guidance:** Management has guided for revenue growth of ~60%, EBITDA margins in the range of 13.5-13.8%, order inflows of Rs 60bn-70bn (including YTD order inflow of Rs 10.6bn), tax rate at ~26%, capex at Rs 1.25bn-Rs 1.5bn (9MFY20 at Rs 710mn), and gross debt at ~Rs 3.9bn.
- **FY21 guidance:** Revenue growth is guided at ~20%, EBITDA margin at 13.5-14%, capex at Rs 1bn-1.5bn, and tax rate at ~31%.

- **Q4 revenue from key projects:**
 - Aligarh-Kanpur/Chakeri-Allahabad/Jhansi Pkg I/Jhansi Pkg II: Rs 1.5bn each
 - Purvanchal Expressway Pkg 5: Rs 1.8bn
 - Purvanchal Expressway Pkg 6: Rs 1bn
 - Chitradurga-Devanagere: Rs 1.2bn-Rs 1.5bn
- **Lucknow ring road (Pkg 1):** PNCL has submitted a performance guarantee for the contract and expects the appointed date (AD) in 2-3 days.
- **HAM projects:** AD for the final HAM project of Challakere-Hariyur is expected by Mar'20 (~80% land available; delayed as locals were seeking higher compensation). The balance equity requirement for seven HAM contracts totals Rs 4.2bn, to be invested over two years (Rs 4.3bn of equity invested so far; Rs 460mn in Q4FY20/Rs 2.5bn in FY21/balance in FY22).
- **Identified bids:** Between Oct'19-Jan'20, the company has submitted bids for eight EPC (Rs 70bn) and six HAM (Rs 80bn) contracts of NHAI. These bids are expected to open soon. PNCL intends to participate in 40 NHAI projects with an equal mix between HAM and EPC in Feb-Mar'20. The company has also submitted a bid for the 5.5km, six-lane elevated road worth Rs 5bn from Nodia Development Authority. It plans to actively participate in airport EPC, railway (Metro/DFCC) and state road projects.
- **Ghaziabad-Aligarh BOT stake divestment:** In May'19, PNCL entered into a share purchase agreement (SPA) with Cube Highways for a full stake sale in the Ghaziabad-Aligarh BOT toll road project (PNCL's stake at 35%, BRNL at 39% and Galfar at 26%); this was set at an enterprise value of Rs 18.3bn, of which the outstanding debt component stood at Rs 10.6bn. Concluded at ~1x P/BV, the deal is expected to fetch cash of over Rs 3bn.

PNCL's investments of ~Rs 3.2bn in the project are as follows: equity investment at Rs 680mn, total of warrants and loans & advances at ~Rs 1.9bn, and outstanding receivables at Rs 620mn. According to management, the deal is likely to be concluded by Feb'20 upon receipt of NOC from NHAI. The company has received approval from all 14 lenders. Proceeds from monetisation of the asset are expected by Mar'20.

Divestment proceeds would augment PNCL's financial resources to fund present and future projects. We continue to include the value of Rs 7/sh for Ghaziabad-Aligarh in our estimates pending final conclusion of the deal.

- **Early completion bonus:** In May'19, PNCL received a provisional completion certificate for the Aligarh-Moradabad contract executed on EPC mode, with completion 73 days ahead of schedule. This entitles the company to an early

completion bonus of Rs 141.1mn (at 0.03% of the Rs 6.4bn contract price for each day of early completion), which is likely to be realised in Q4FY20.

- **Dec'19 standalone balance sheet highlights:** Net worth stood at Rs 24.8bn, gross debt at Rs 3.45bn, gross block at Rs 10.9bn, cash balance at Rs 4.35bn, MAT credit at Rs 1.3bn and mobilisation advances at Rs 8.5bn (~Rs 4bn against HAM projects and balance against EPC projects).

PNCL has fully drawn the mobilisation advances for Mumbai-Nagpur Expressway (15% of project cost: Rs 3bn; interest rate of 12.2-12.3%). So far, the company has drawn down 5% of the mobilisation advance for the Purvanchal Expressway project (eligible for 15%; interest rate of 8.3%). The company further expects an advance of Rs 1.2bn for the NHAI HAM project of Challakere-Hariyur by end-Mar'20.

- **Bank limits:** As on Dec'19, PNCL's fund/non-fund-based limits stand at Rs 10bn/Rs 50bn (Rs 27bn utilised).
- **Interest cost:** Interest costs were high during Q3 mainly due to interest on mobilisation advances of Rs 3bn drawn for the Mumbai-Nagpur Expressway project. The breakup of interest cost is as follows: (i) interest on term loans at Rs 79mn, (ii) bank guarantee charges at Rs 45mn, (iii) interest on mobilisation advances at Rs 230mn, and (iv) remaining due to the impact of Ind-AS.

PNC will adjust these advances against its monthly billing on an accelerated basis; it has already adjusted Rs 1bn of the Rs 3bn so far. Once the balance amount is absorbed, interest cost will normalise.

- **Employee cost:** A wage revision of ~10% in Nov'19 (w.e.f. Jan'19) saw the company pay arrears for 11 months in Q3 (Rs 220mn-Rs 240mn). Going forward, monthly employee cost should normalise to ~Rs 200mn.
- **Gross toll collection:** Gross toll collection totaled Rs 2.3bn in Q3FY20 (including annuity projects). Ex-annuity projects, toll collection stood at Rs 1.9bn, a decline of 3.1% YoY (due to the extended monsoon).

Traffic at Bareilly-Almora remains below expectation due to leakages. To control this matter, the company with the permission of the awarding authority (UPSHA) has built an additional toll plaza at the Almora end (Uttarakhand border), which is likely to be commissioned by end-Feb'20. This measure will improve toll collection by Rs 170mn-180mn per month. PNCL has undertaken loss funding of Rs 890mn on the project and further expects to fund Rs 50mn-Rs 60mn. Management expects the project to become self-sustaining from FY21 onward.

FIG 3 – PENDING EQUITY COMMITMENT OF ~RS 4.2BN IN 7 HAM PROJECTS TO BE INVESTED OVER ~2 YEARS*

| Projects (Rs mn) | Length (km) | Lane | BPC | TPC | EPC cost | Debt | Equity | NHAI Grant | Equity up to Dec-19 | Debt up to Dec-19 | FC date | AD date | Construction period (years) | Concessi on period (years) |
|------------------------------------|-------------|------|---------------|---------------|---------------|---------------|--------------|---------------|---------------------|-------------------|-----------|---------------------------|-----------------------------|----------------------------|
| Dausa-Lalsot, Rajasthan | 83 | 4 | 8,810 | 8,200 | 7,120 | 3,710 | 660 | 3,840 | 650 | 3,090 | 03-Apr-17 | 31-May-17 | 2.5 | 17.5 |
| Chitradurga-Davanagere, Karnataka | 73 | 6 | 14,340 | 13,380 | 12,500 | 6,060 | 1,070 | 6,250 | 550 | 3,080 | 12-Dec-17 | 27-Dec-17 | 2.5 | 17.5 |
| Jhansi-Khajuraho (Pkg I), UP & MP | 77 | 4 | 14,100 | 13,420 | 12,182 | 6,040 | 1,280 | 6,100 | 980 | 3,620 | 01-Nov-17 | 18-May-18 | 2.0 | 17.0 |
| Jhansi-Khajuraho (Pkg II), UP & MP | 85 | 4 | 13,100 | 12,620 | 11,318 | 5,900 | 1,040 | 5,680 | 580 | 3,090 | 02-Nov-17 | 13-Feb-18 | 2.0 | 17.0 |
| Chakeri-Allahabad, UP | 145 | 6 | 21,590 | 20,180 | 18,660 | 8,730 | 1,920 | 9,530 | 770 | 1,500 | 20-Sep-18 | 12-Jan-19 | 2.5 | 17.5 |
| Aligarh-Kanpur (Pkg II) UP | 43 | 4 | 11,970 | 11,040 | 10,330 | 5,000 | 1,250 | 4,790 | 660 | 1,000 | 05-Nov-18 | 25-Feb-19 | 2.5 | 17.0 |
| Challakere-Hariyur, Karnataka | 56 | 4 | 11,570 | 10,290 | 9,350 | 4,400 | 1,260 | 4,630 | 80 | - | 07-Dec-18 | Pending; likely by Mar'20 | 2.0 | 17.0 |
| Total | | | 95,480 | 89,130 | 81,461 | 39,840 | 8,480 | 40,820 | 4,270 | 15,380 | | | | |

Source: Company, BOBCAPS Research | *100% stake held | Note: BPC – Bid Project Cost; FC – Financial Closure; AD – Appointed Date; TPC – Total Project Cost; EPC – Engineering Procurement & Construction

FIG 4 – OPERATIONAL ASSETS

| Project stretch (Rs mn) | Length (km) | Type | Authority | Project cost | Equity | PNC share of invested equity + Sub-debt | Grant | Debt | O/s Debt as on Sep'19 | COD | Concession period (years) |
|-------------------------------|-------------|---------|-----------|---------------|--------------|---|--------------|---------------|-----------------------|--------|---------------------------|
| Raibareilly-Jaunpur, UP | 166 | Annuity | NHAI | 8,364 | 1,396 | 1,396 | - | 6,978 | 5,770 | Feb-16 | 17 |
| Bareilly-Almora, UP | 54 | Toll | UPSHA | 6,045 | 746 | 746 | 700 | 4,600 | 4,250 | Oct-15 | 25 |
| Ghaziabad-Aligarh, UP* | 125 | Toll | NHAI | 20,190 | 1,940 | 1,860 | 3,110 | 15,140 | 9,470 | Jul-15 | 24 |
| Kanpur-Ayodhya, UP | 217 | OMT | NHAI | - | 1 | 1 | - | - | - | Aug-13 | 9 |
| Kanpur-Kabrai, UP | 123 | Toll | NHAI | 4,585 | 675 | 675 | 1,230 | 2,680 | 1,760 | May-15 | 12 |
| Gwalior-Bhind, UP | 108 | Toll | MPRDC | 3,403 | 783 | 783 | 270 | 2,350 | 1,800 | Mar-13 | 14 |
| Narela Industrial area, Delhi | 33 | Mix | DSIIDC | 1,750 | 350 | 350 | - | 1,400 | 740 | Oct-13 | 15 |
| Total | | | | 44,337 | 5,891 | 5,811 | 5,310 | 33,148 | 2,3790 | | |

Source: Company, BOBCAPS Research | *Signed share purchase agreement for sale of 35% stake with Cube Highways and Infrastructure Pte. Ltd. on May 04, 2019 | Note: COD – Commercial Operation Date

FIG 5 – GROSS TOLL COLLECTION TREND

| Projects (Rs mn) | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | FY19 | Q1FY20 | Q2FY20 | Q3FY20 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Raibareilly-Jaunpur | 322 | 322 | 322 | 322 | 322 | 321 | 1,286 | 321 | 322 | 322 |
| Bareilly-Almora | 110 | 105 | 105 | 90 | 99 | 95 | 389 | 99 | 90 | 98 |
| Ghaziabad-Aligarh | 510 | 510 | 524 | 504 | 540 | 530 | 2,098 | 550 | 505 | 543 |
| Kanpur-Ayodhya | 810 | 774 | 860 | 780 | 963 | 998 | 3,601 | 1,024 | 827 | 980 |
| Kanpur-Kabrai | 210 | 299 | 290 | 170 | 250 | 239 | 949 | 243 | 105 | 178 |
| Gwalior-Bhind | 172 | 173 | 115 | 95 | 128 | 143 | 481 | 131 | 105 | 121 |
| Narela Industrial area | 108 | 97 | 98 | 100 | 100 | 105 | 403 | 114 | 105 | 105 |
| Total | 2,242 | 2,279 | 2,314 | 2,061 | 2,402 | 2,431 | 9,208 | 2,482 | 2,059 | 2,346 |
| Like-to-Like (ex Raibareilly Jaunpur and Narela) | 1,812 | 1,861 | 1,895 | 1,639 | 1,980 | 2,005 | 7,519 | 2,047 | 1,633 | 1,920 |
| % growth YoY | (7.7) | 12.5 | 18.1 | 10.1 | 9.3 | 7.7 | 11.1 | 8.0 | (0.4) | (3.1) |
| % growth YoY (toll projects) | | | | | | | | | | |
| Bareilly-Almora | (11.4) | 4.0 | (4.8) | (10.0) | (10.0) | (9.5) | (8.5) | (5.7) | 0.4 | (1.0) |
| Ghaziabad-Aligarh | (5.2) | (3.4) | 9.7 | 14.5 | 5.9 | 3.9 | 8.3 | 4.9 | 0.2 | 0.5 |
| Kanpur-Ayodhya | (6.8) | 22.1 | 28.2 | 18.2 | 18.9 | 29.0 | 23.5 | 19.0 | 6.0 | 1.8 |
| Kanpur-Kabrai | (28.7) | 30.0 | 51.8 | (1.7) | 19.0 | (20.1) | 8.7 | (16.1) | (38.2) | (28.8) |
| Gwalior-Bhind | 24.6 | 7.5 | (25.1) | (18.1) | (25.6) | (17.4) | (21.8) | 14.2 | 10.6 | (5.5) |

Source: Company, BOBCAPS Research

Valuation methodology

PNCL, with its strong execution record and lean balance sheet, is well placed to benefit from the growth opportunities offered by India's roads sector. Pending ADs for the Lucknow Ring EPC road project (Pkg I) and Challakere-Hariyur HAM contract are expected to be awarded in Q4FY20, thereby taking the executable order backlog to 100% by end of Mar'20.

Post the Q3FY20 results, we lower FY20/FY21 EPS estimates by 1.4%/2.6% to factor in higher interest cost and a higher effective tax rate (no material changes in FY22 EPS). We now expect a robust 28% revenue CAGR and 29% PBT CAGR over FY19-FY22 on a standalone basis.

The stock is trading at 11x/8.7x/8.2x FY20E/FY21E/FY22E standalone earnings, adjusted for Rs 50/sh of BOT/HAM asset value. We reiterate BUY with a Mar'21 SOTP-based target price of Rs 245 (unchanged).

FIG 6 – REVISED ESTIMATES

| (Rs mn) | FY20E | | | FY21E | | | FY22E | | |
|-------------------|--------|--------|------------|--------|--------|------------|--------|--------|------------|
| | Old | New | Change (%) | Old | New | Change (%) | Old | New | Change (%) |
| Revenue | 50,593 | 50,147 | (0.9) | 61,241 | 61,309 | 0.1 | 63,870 | 64,378 | 0.8 |
| EBITDA | 6,956 | 6,918 | (0.5) | 8,453 | 8,471 | 0.2 | 8,816 | 8,892 | 0.9 |
| EBITDA margin (%) | 13.7 | 13.8 | 5bps | 13.8 | 13.8 | - | 13.8 | 13.8 | - |
| Adjusted PAT | 3,447 | 3,400 | (1.4) | 4,389 | 4,275 | (2.6) | 4,548 | 4,552 | 0.1 |
| PAT margin (%) | 6.8 | 6.8 | - | 7.2 | 7.0 | (20bps) | 7.1 | 7.1 | - |

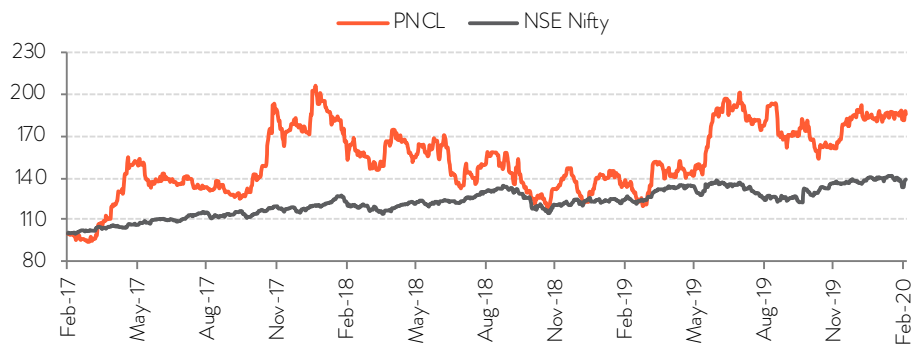
Source: BOBCAPS Research

Within our SOTP model, we value (a) the standalone EPC business at Rs 195/sh based on 11x Mar'22E earnings, (b) the BOT business at Rs 22/sh using the discount rates of 11-16% for BOT toll/annuity-based projects to arrive at the Mar'21E NPV of FCFE, and (c) HAM projects at Rs 28/sh on P/BV basis (implied P/BV of 1x for equity investment in seven projects as on Mar'21E).

FIG 7 – MAR'21 SOTP-BASED TARGET PRICE OF RS 245

| Business | Basis of valuation | Value (Rs mn) | Multiple (x) | Valuation (Rs mn) | Per share (Rs) |
|---|--|---------------|--------------|-------------------|----------------|
| Standalone business (EPC) | P/E on Mar'22E earnings | 4,552 | 11 | 50,067 | 195 |
| Value of subsidiaries/associates | | | | | 50 |
| -BOT (operational assets) | NPV of FCFE as on Mar'21E | 5,757 | - | 5,757 | 22 |
| -7 HAM projects | P/BV - Equity investment as on Mar'21E | 7,231 | 1 | 7,231 | 28 |
| Total | | | | 63,054 | 245 |
| Shares outstanding (mn) | | | | 257 | |

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- **Political risk:** PNCL has a strong presence in its home state of Uttar Pradesh. Any slowdown in state government spending may affect the company's growth prospects.
- **Downturn in road sector capex:** Capex in the road sector has witnessed some revival over the last two years. Any slowdown in project awarding would impact the company's growth and our estimates.
- **Concentrated order backlog:** Close to ~66% of PNCL's current order backlog (including L1 positions) is from Uttar Pradesh. Any delay or execution constraints on these projects will significantly affect our revenue and profit estimates.

FINANCIALS (STANDALONE)

Income Statement

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total revenue | 17,983 | 30,716 | 50,147 | 61,309 | 64,378 |
| EBITDA | 2,606 | 4,320 | 6,918 | 8,471 | 8,892 |
| Depreciation | (772) | (922) | (1,280) | (1,451) | (1,601) |
| EBIT | 1,834 | 3,398 | 5,639 | 7,020 | 7,291 |
| Net interest income/(expenses) | (307) | (641) | (1,154) | (1,292) | (1,258) |
| Other income/(expenses) | 230 | 304 | 463 | 467 | 469 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 1,757 | 3,061 | 4,948 | 6,196 | 6,502 |
| Income taxes | 153 | 735 | 1,548 | 1,921 | 1,951 |
| Extraordinary items | 906 | 923 | 1,545 | 0 | 0 |
| Min. int./Inc. from associates | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 2,510 | 3,249 | 4,945 | 4,275 | 4,552 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 1,604 | 2,326 | 3,400 | 4,275 | 4,552 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables | 4,628 | 4,737 | 6,869 | 8,474 | 8,898 |
| Other current liabilities | 0 | 0 | 0 | 0 | 0 |
| Provisions | 176 | 117 | 275 | 420 | 441 |
| Debt funds | 1,697 | 3,747 | 5,054 | 6,554 | 4,554 |
| Other liabilities | 1,680 | 5,734 | 10,442 | 10,070 | 10,574 |
| Equity capital | 513 | 513 | 513 | 513 | 513 |
| Reserves & surplus | 17,554 | 20,639 | 25,455 | 29,602 | 34,025 |
| Shareholders' fund | 18,067 | 21,152 | 25,968 | 30,115 | 34,538 |
| Total liabilities and equities | 26,248 | 35,487 | 48,608 | 55,633 | 59,005 |
| Cash and cash eq. | 1,473 | 3,094 | 1,228 | 751 | 1,153 |
| Accounts receivables | 7,784 | 7,308 | 14,199 | 17,301 | 18,167 |
| Inventories | 1,758 | 4,036 | 6,183 | 7,559 | 7,937 |
| Other current assets | 0 | 0 | 0 | 0 | 0 |
| Investments | 4,948 | 5,730 | 8,092 | 10,649 | 11,898 |
| Net fixed assets | 4,064 | 6,155 | 6,125 | 5,924 | 5,573 |
| CWIP | 111 | 62 | 62 | 62 | 62 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets, net | 20 | 5 | 40 | 40 | 40 |
| Other assets | 6,090 | 9,097 | 12,679 | 13,347 | 14,175 |
| Total assets | 26,248 | 35,487 | 48,608 | 55,633 | 59,005 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income + Depreciation | 3,282 | 4,172 | 6,224 | 5,726 | 6,153 |
| Interest expenses | 307 | 641 | 1,154 | 1,292 | 1,258 |
| Non-cash adjustments | (498) | (658) | 0 | 0 | 0 |
| Changes in working capital | (560) | (690) | (5,657) | (3,768) | (1,124) |
| Other operating cash flows | 0 | 0 | 0 | 0 | 0 |
| Cash flow from operations | 2,531 | 3,465 | 1,721 | 3,250 | 6,287 |
| Capital expenditures | (1,391) | (2,964) | (1,250) | (1,250) | (1,250) |
| Change in investments | (272) | (782) | (2,362) | (2,557) | (1,249) |
| Other investing cash flows | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing | (1,663) | (3,746) | (3,612) | (3,807) | (2,499) |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | 224 | 2,050 | 1,307 | 1,500 | (2,000) |
| Interest expenses | (307) | (641) | (1,154) | (1,292) | (1,258) |
| Dividends paid | (150) | (154) | (128) | (128) | (128) |
| Other financing cash flows | 483 | 648 | 0 | 0 | 0 |
| Cash flow from financing | 250 | 1,903 | 25 | 80 | (3,387) |
| Changes in cash and cash eq. | 1,118 | 1,621 | (1,866) | (477) | 402 |
| Closing cash and cash eq. | 1,473 | 3,094 | 1,228 | 751 | 1,153 |

Per Share

| Y/E 31 Mar (Rs) | FY18A | FY19A | FY20E | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 9.8 | 12.7 | 19.3 | 16.7 | 17.7 |
| Adjusted EPS | 6.3 | 9.1 | 13.3 | 16.7 | 17.7 |
| Dividend per share | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Book value per share | 70.4 | 82.4 | 101.2 | 117.4 | 134.6 |

Valuations Ratios

| Y/E 31 Mar (x) | FY18A | FY19A | FY20E | FY21E | FY22E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 2.8 | 1.7 | 1.0 | 0.9 | 0.9 |
| EV/EBITDA | 19.3 | 11.8 | 7.3 | 6.2 | 6.2 |
| Adjusted P/E | 31.3 | 21.6 | 14.8 | 11.7 | 11.0 |
| P/BV | 2.8 | 2.4 | 1.9 | 1.7 | 1.5 |

DuPont Analysis

| Y/E 31 Mar (%) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 91.3 | 76.0 | 68.7 | 69.0 | 70.0 |
| Interest burden (PBT/EBIT) | 95.8 | 90.1 | 87.8 | 88.3 | 89.2 |
| EBIT margin (EBIT/Revenue) | 10.2 | 11.1 | 11.2 | 11.5 | 11.3 |
| Asset turnover (Revenue/Avg TA) | 71.7 | 99.5 | 119.3 | 117.6 | 112.3 |
| Leverage (Avg TA/Avg Equity) | 1.5 | 1.6 | 1.8 | 1.9 | 1.8 |
| Adjusted ROAE | 9.5 | 11.9 | 14.4 | 15.2 | 14.1 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

| Y/E 31 Mar | FY18A | FY19A | FY20E | FY21E | FY22E |
|--|--------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 6.5 | 70.8 | 63.3 | 22.3 | 5.0 |
| EBITDA | 17.9 | 65.8 | 60.1 | 22.5 | 5.0 |
| Adjusted EPS | (13.0) | 45.0 | 46.2 | 25.8 | 6.5 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 14.5 | 14.1 | 13.8 | 13.8 | 13.8 |
| EBIT margin | 10.2 | 11.1 | 11.2 | 11.5 | 11.3 |
| Adjusted profit margin | 8.9 | 7.6 | 6.8 | 7.0 | 7.1 |
| Adjusted ROAE | 9.5 | 11.9 | 14.4 | 15.2 | 14.1 |
| ROCE | 9.9 | 15.2 | 20.2 | 20.8 | 19.3 |
| Working capital days (days) | | | | | |
| Receivables | 158 | 91 | 103 | 103 | 103 |
| Inventory | 36 | 48 | 45 | 45 | 45 |
| Payables | 94 | 56 | 50 | 50 | 50 |
| Ratios (x) | | | | | |
| Gross asset turnover | 2.7 | 3.5 | 4.6 | 5.1 | 4.8 |
| Current ratio | 2.6 | 2.2 | 1.9 | 2.1 | 2.1 |
| Net interest coverage ratio | 6.0 | 5.3 | 4.9 | 5.4 | 5.8 |
| Adjusted debt/equity | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 |

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

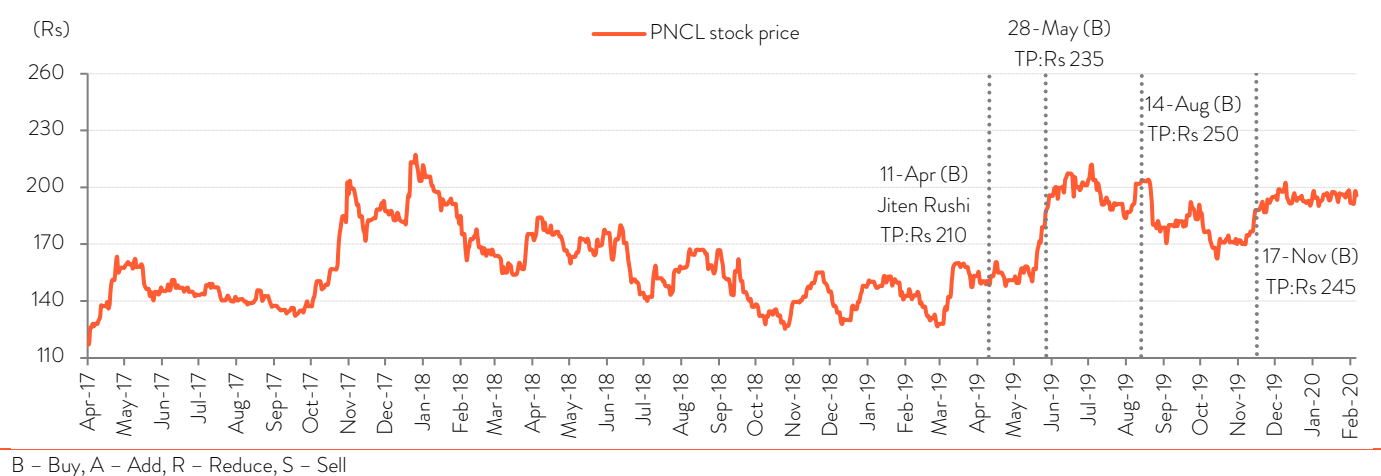
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: PNC INFRA TECH (PNCL IN)



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