IDEA2WIN – PNC Infratech

CMP: ₹280-₹295; 1-Year Target: ₹353

IIFL SECURITIES

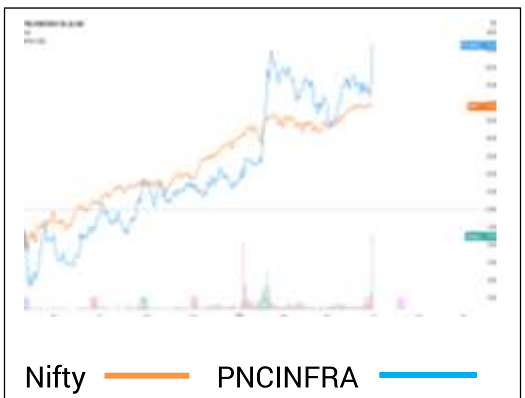
Sector	Infrastructure
Recommendation	BUY
Upside	23%

Stock Data	
Sensex	52290
52 Week h/l (₹)	298 /126
Market cap(₹Cr)	7,501
BSE code	539150
NSE code	PNCINFRA
FV (₹)	2
Div.yield(%)	0.19%

Shareholding Pattern	Sep-20	Dec-20	Mar-21
Promoters	56.07	56.07	56.07
DII+FII	30.35	29.63	38.5
Others	13.58	14.30	5.43

Source: www.bseindia.com

Share Price Trend



As on 02nd July 2021

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Profile

PNC Infratech is engaged in the business of India's infrastructure development through the construction of highways including BOT (Built, Operate and Transfer projects), HAM (Hybrid Annuity Model), Airport Runways, Bridges, Flyovers and Power Transmission projects, among others. The company has now evolved into a leading highway development, construction and management company due to its integrated business model.

Investment Rationale

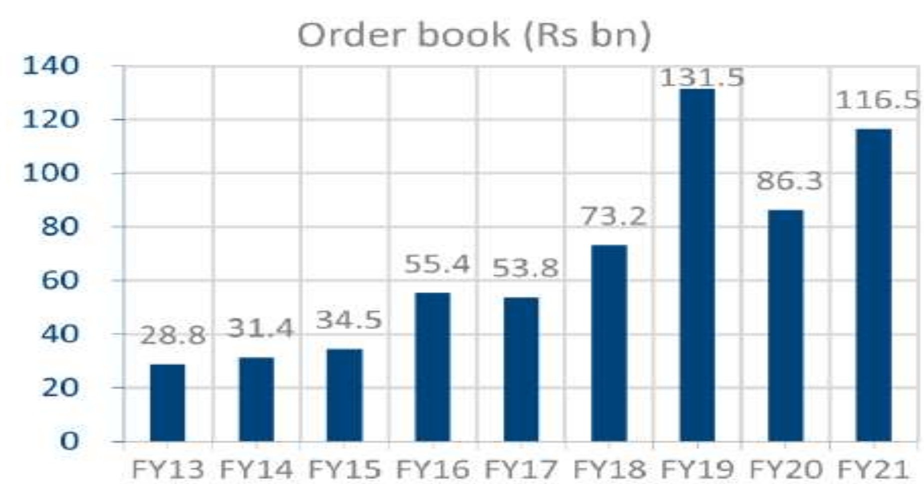
Increase in Government spending on Infrastructure: India is expected to become the third largest construction market by 2022. Only 24% of the National Highway network in India is four-lane and therefore presents and immense scope for improvement. The Government plans to invest about ₹102 lakh crore on infrastructure projects by 2024-2025. In Budget 2021, the Government of India announced the allocation of ₹ 1.18 lakh crore towards road transport and highway sector. Further, 84% of the total revenue of PNC Infratech is from EPC projects and 89% of the order-book is constituted by Road EPC Projects as on FY21.

Revenue growth driven by healthy order book: PNC Infratech saw a revenue growth of 42% yoy in Q4FY21. Even with lockdowns in most parts of the country, the company was able to grow its revenue marginally driven by large order execution. PNC Infratech's under execution order book stood at ₹116.5bn (2.3X book to bill), which goes up to ₹16.6bn (3X book to bill) if accounted for the two EPC road project and seven EPC water projects. The management expects order inflow of ₹80-90bn in FY22 wherein bids for eleven EPC projects and three HAM projects are already submitted, which are worth ₹45bn and ₹35bn respectively. PCOD was received of 4 HAM projects of which 3 were received in June 2021; PCOD for another 2 HAM projects are expected in FY22.

Potential value unlocking through HAM Portfolio Monetization: PNC Infra is in discussion with few investors for monetizing its Hybrid Annuity Model (HAM) portfolio. This move will likely be the key to churn its capital by using it to fund the recently won projects.

Integrated business model with stable margin: PNC Infratech follows an integrated business model where they have developed in-house design and engineering capabilities. The company has invested in owning construction equipment and machinery which helps them reduce their dependence on third parties which in turn enables higher profitability. The company also owns/leases quarries, which helps in timely securing raw material. EBITDA margin was 14.1% and 13.7% for 4QFY21 and FY21, respectively. The EBITDA margin was steady as the management passed on the increase in commodity prices like steel and cement. The company has price-escalation clauses in most of its projects and the management expects that there would not be any material impact on their profitability due to rise in commodity price.

Diversified Portfolio: PNC Infratech has diversified its orderbook portfolio by accepting more water and irrigation projects. As on 4QFY21 orderbook split, water and irrigation accounted for 28% of the order book, while road projects accounted for 72%. The company has also ventured into airport runway projects and has executed 20 such projects. For future growth, PNC Infrastructure plans to diversify into waste management and water-related infrastructure projects such as river-connecting. Out of the three water supply projects in UP, appointed date for one has already been received and the management expects to receive in a couple of months. They are keen to expand their presence in development of industrial areas and dedicated freight corridor projects. PNC Infratech plans to increase their presence in BOT, OMT and HAM projects by leveraging their technical and financial credentials developed through their focus on core EPC projects. The company would bank on present capex, which would enable them to achieve a revenue of ₹8,000-9,000 crore, which is 60-80% higher than the FY21 revenue.



Risks

Covid-19 third wave: If there is a third wave of Covid-19 in India, the company will see reduced collection from tolls which contributed 16% of the total revenue in 2021.

Delay in orders: The industry is dependent on the Government awarding projects to the company. Delay in the orders won could hamper the momentum of the business.

Outlook & Valuation

PNC Infratech reported strong operating performance in its Quarterly earnings led by good execution capabilities. The company expects margins to be stable throughout FY22 due to presence of a healthy order book which is 3X of its FY21 revenue. The company is diversifying its portfolio by bidding for more water and irrigation projects. According to the management, the current Capex is enough to enable them achieve a revenue of almost ₹9,000cr. PNC Infratech is in talks to monetize its HAM portfolio, which would help them in churning its capital. The company was initially focused on contracts in northern India, but has now diversified to other large states like Maharashtra and Karnataka, which is likely to be another growth factor. As the Government plans to increase its expenditure on the infrastructure development of the country, the sector is likely to see a lot of growth going forward.

Hence, we recommend a Buy Rating on PNC Infratech with a Target Price of ₹353.

Financial Summary

Consolidated (Rs in mn)	FY19	FY20	FY21 E	FY22 E	FY23 E
Revenue	30,969	48,779	49,254	57,464	65,922
YoY growth (%)	67%	58%	1%	17%	15%
EBITDA margin (%)	14.8%	15.7%	13.7%	14.5%	15.5
PAT	3,249	4,603	3,619	4,678	5,568
ROE (%)	16.6	19.7	13.3	14.9	15.3
P/B (x)	3.0	2.5	2.2	1.9	1.6
EV/EBITDA (x)	13.9	7.6	8.4	7.1	6.2
Net Debt/Equity (x)	0.0	(0.2)	(0.2)	(0.1)	(0.1)

Click here to watch the video.

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

Please refer to http://www.indiainfoline.com/research/disclaimer for recommendation parameter, analyst disclaimer and other disclosures.

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