PNC Infratech (PNCINF)

ICICI direct Research

CMP: ₹ 368 | Target: ₹ 460 (25%) | Target Period: 12 months | **BUY**

September 22, 2023

Asset monetisation – a key trigger ahead!

About the stock: PNC Infratech has established itself as a strong executor in roads and water infra segments. Additionally, superior execution capabilities via ownership of modern equipment and in-house teams enables PNC to deliver projects on-time.

- Reported 30.6% revenue CAGR in FY18-23; operating margin has largely been in the range of 13-14% and reported robust return ratios (RoCE: ~20%)

Key Investment Thesis:

- **Order book strong, provides healthy revenue visibility**: PNC's order book (OB) at the end of Q1FY24, including the newly won projects (four HAM and one EPC road project worth ₹ 4083 crore), was at ~₹ 18900 crore, 2.6x book to TTM revenues. Going ahead, the company has guided for inflows worth ~₹ 10,000 crore during FY24E driven by roads projects (70%+) while remaining is likely from non-roads segments like water, railway, etc. Given the orderbook visibility, we expect healthy revenue CAGR of ~13.5% over FY23-25E to ₹ 9097 crore
- **Well-placed to fund HAM projects**: As of Q1FY24, the company had infused ₹ 1712 crore into its HAM projects. Going forward, it has balance equity requirement of ₹ 1228 crore to be infused over the next three to four years. Given the healthy operating cash flow generation., we expect the equity to be funded from the internal accruals. The company enjoys a healthy balance sheet with net debt to equity of 0.17x as of Q1FY24.
- **Asset monetisation on the anvil**: 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 to be operational by next three to four months). It has received non-binding offers from the interested parties. The management expects the process of monetisation (including receipt of money) to conclude by FY24-end with receipt of amount. With monetisation fructification, company's scalability would improve drastically, going ahead.

Rating and Target Price

- PNC has exhibited healthy execution along with a stable margin trajectory. Medium term trigger is asset monetisation, which would free up capital and drive scalability.
- We assign **BUY** rating
- We value PNC at ₹ 460 per share, valuing its construction business at ₹ 373/share (at 12x FY25 EPS) and HAM at 1x equity invested.

Particulars

Particular	Amount (₹ crore)
Market Cap	9,448
Debt (₹ crore) FY23	450
Cash (₹ crore) FY23	373
EV (₹ crore)	9,525
52 week H/L (₹)	388/ 237
Equity capital	51.3
Face value	2.0

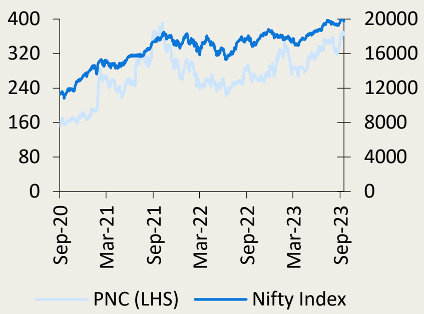
Shareholding Pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	56.1	56.1	56.1	56.1
DII	29.1	29.6	29.4	28.5
FIIs	9.8	9.3	9.5	10.3
Other	5.1	5.0	5.0	5.2

Risks to our call

- Delay in HAM projects execution;
- Delay in asset monetisation

Price Performance



Research Analyst

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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%	690.0	798.2	14.3%
EPS (₹)	17.9	14.1	17.5	23.8		26.9	31.1	
P/E (x)	20.5	26.1	21.1	15.4		13.7	11.8	
EV/EBITDA (x)	11.7	13.3	11.6	10.0		8.5	7.5	
RoNW (%)	12.4	12.4	13.4	15.5		14.9	14.8	
RoCE (%)	25.3	19.2	20.0	20.1		19.9	20.4	

Source: Company, ICICI Direct Research

Company Background

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. The company has executed 85 major infrastructure projects spread across 13 states, of which 61 are road EPC projects. It is currently executing 26 projects.

It operating 5 BOT projects, comprising both toll & annuity assets; Furthermore, it has a total of 22 HAM projects comprising – 6 operational projects, 12 projects under construction, 4 projects where company has signed Concession Agreements.

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Investment Rationale

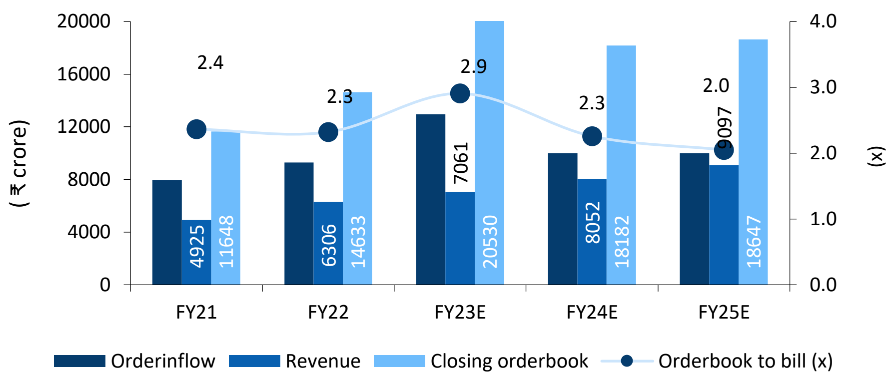
Order book strong, provides healthy revenue visibility

PNC's order book (OB) at the end of Q1FY24 was at ₹ 14,916 crore. Including the newly won projects (four HAM and one EPC road project worth ₹ 4083 crore orders won in March, 2023), Order book was at ~₹ 18900 crore, 2.6x book to TTM revenues. Roads contributed ~72% to the overall order book while balance ~28% is contributed by Water and Canal projects.

Going forward, the company has guided for inflows worth ~₹ 10,000 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.

We highlight that NHAI and MoRTH have planned awarding of road project of ~12,000 km, cumulatively in FY24. The company indicated that bidding is likely by October, 2023. As of Q1FY24, it had placed bids for ~₹ 11,700 crore worth of road projects including one elevated corridor. It also continues to evaluate Jal Jeevan Mission water supply opportunities in MP, Rajasthan apart from its existing projects in UP.

Exhibit 1: Order Book provides strong visibility



Source: Company, ICICI Direct Research

Asset Monetisation on the anvil

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 to be operational by next three to four months).

It has received non-binding offers from the interested parties. The management expects the process of monetisation (including receipt of money) to conclude by FY24-end with receipt of amount. We highlight that a media article had indicated that KKR's roads Highways Infrastructure Trust is in talks to acquire the assets for an enterprise value of about ₹. 9,000 crore. The indicative deal implies P/B of ~1.24x.

Well-placed to fund HAM projects

At the end of Q1FY24, its standalone gross debt (including debt from own subsidiaries), cash and cash equivalent at the standalone level was at ₹ 489 crore, ₹ 186 crore, respectively. Net debt at ₹ 303 crore, net debt to equity at comfortable ~0.17x.

As of Q1FY24, the company had infused ₹ 1712 crore. **Going forward, it has balance equity requirement of ₹ 1228 crore to be infused over the next two to three years.** It expects to infuse ₹ 80 crore, ₹ 450 crore, ₹ 350 crore, ₹ 348 crore in M9FY24, 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.

Exhibit 2: HAM project summary

Project	% Stake	Authority	State	Stretch	Kms	Total Project cost (₹ crore)	PNC's share of invested equity (₹ crore)	Outstanding Debt
Dausa-Lalsot	100	NHAI	Rajasthan	NH-11A	83.5	820	65	285
Chitradurga–Davanagere	100	NHAI	Karnataka	NH-48	72.7	1,338	107	509
Jhansi-Khajuraho (Package I)	100	NHAI	UP & MP	NH-75/76	76.3	1,342	128	550
Jhansi-Khajuraho (Package II)	100	NHAI	UP & MP	NH-75/76	85.4	1,262	104	496
Chakeri-Allahabad	100	NHAI	UP	NH-2	145.1	2,018	172	777
Aligarh Kanpur	100	NHAI	UP	NH-91	45.0	1,110	131	474
Challakere - Hariyur	100	NHAI	Karnataka	NH-150A	55.7	1,023	93	340
Jagdishpur - Faizabad	100	NHAI	UP	NH-330A	60.2	1,311	123	490
Mitrasen to Kanpur	100	NHAI	UP	NH-91	60.6	1,790	182	710
Unnao-Lalganj	100	NHAI	UP	NH-232A	70.0	1,491	108	382
Meerut - Nazibabad	100	NHAI	UP	NH-119	53.9	1,207	109	435
Kanpur-Lucknow (Pkg I)	100	NHAI	UP	NH-27	17.5	1,618	85	-
Kanpur-Lucknow (Pkg II)	100	NHAI	UP	NH-31/25	45.2	1,662	85	-
Sonauli- Gorakhpur	100	NHAI	UP	NH-29E	79.5	1,611	45	-
Mathura - Gaju Village	100	NHAI	UP	NH-530B	32.9	994	32	-
Hardoi	100	NHAI	UP	NH-731	54.4	948	48	-
Gaju Village- Devinagar	100	NHAI	UP	NH-530B	33.0	819	42	100
Badadal-Maradgi S	100	NHAI	MH & KN	NH-150C	71.0	1,733	53	-
Singraur Uphar - Baranpur Kadipur Ichauli (Package-III)	100	Morth	UP	NH-731A	25.5	819	-	-
Varanasi - Ranchi - Kolkata Highw ay (Pkg-2)	100	NHAI	Bihar		27.0	891	-	-
Varanasi - Ranchi - Kolkata Highw ay (Pkg-3)	100	NHAI	Bihar		36.0	1,113	-	-
Varanasi - Ranchi - Kolkata Highw ay (Pkg-6)	100	NHAI	Bihar		35.2	1,260	-	-
Total						**28,180**	**1,712**	**5,548**

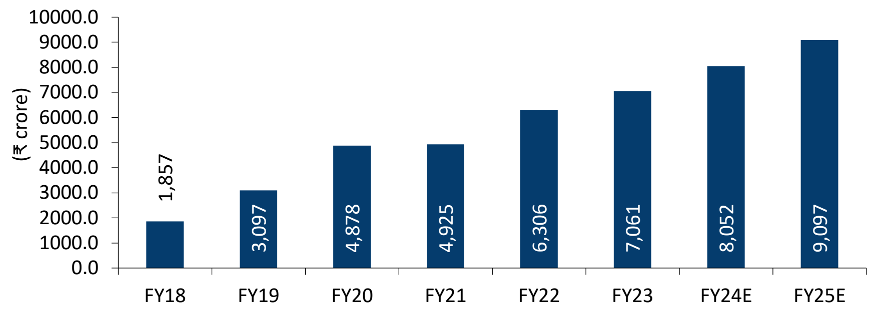
Source: Company, ICICI Direct Research

Revenues to grow at ~13.5% CAGR over FY23-25E

We highlight that over the last 5 years, revenues have grown at ~31% CAGR for PNC. The company has focussed on execution and has largely completed most projects on-time/ahead of schedule.

Going ahead, terms of execution, the company has given topline guidance at ~10-15% YoY growth during FY24. We believe that healthy order book would ensure healthy topline growth (13.5% CAGR over FY23-25E)

Exhibit 3: Healthy revenue growth ahead



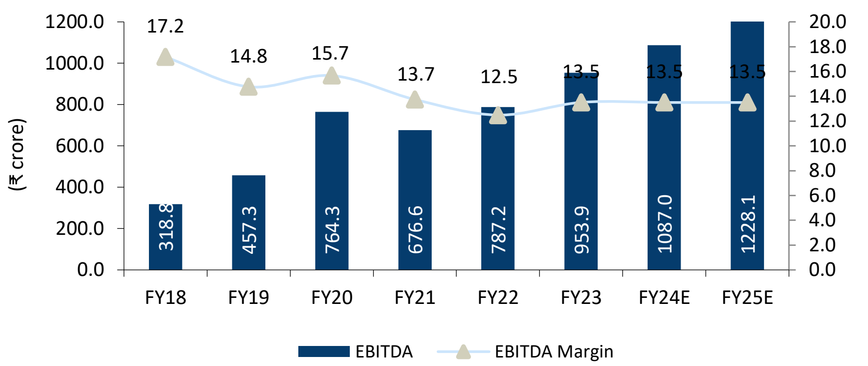
Source: Company, ICICI Direct Research

Margins to improve ahead

Historically, superior execution had led to bonus receipts which to higher operating profits, with core margins being at 13.5-14%. We highlight that the EPC companies (including PNC) in FY22 witnessed an impact on margins owing steep rise in raw material prices including cement and steel. The margins, therefore, had come down to 12.5% in FY22 vs. 13.7% in FY21. This, reverted back in FY23.

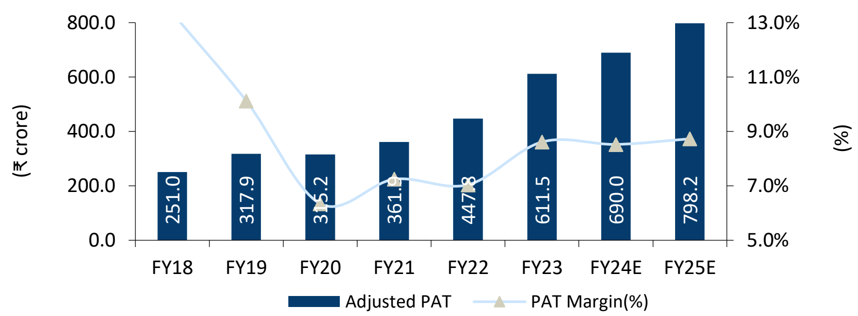
With stable raw materials, margins are likely to remain at the normalised levels of ~13.5%.

Exhibit 4: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 5: PAT trend



Source: Company, ICICI Direct Research

Key risk and concerns

Slower execution could impact revenues

Slower execution could impact overall revenue growth potential.

Delay in Asset Monetisation

Asset monetisation is likely to be a key driver of scalability for the company. Therefore, any delay in the same could delay any sharp scalability potential

Raw material volatility

We note that raw material prices have eased over the last 2-3 quarters. However, any steep volatility in raw material prices could impact margins

Increase in competitive environment

While PNC operates in a competitive industry, any competitive bidding led mistake could impact margins for certain projects.

Valuation

Exhibit 6: Valuation Table

Entity	₹ crore	Per share	Comment
Construction Business	9,578	373	12x FY25 P/E
BOT & HAM Projects	2,107	82	
Bareilly Almora	75	3	
Gwalior Bhind	78	3	
Raibereli Jaunpur	140	5	
Narela Industrial Area	35	1	
Kanpur Kabrai	68	3	
Investment in HAM projects	1,712	67	1x Equity Invested till date
Target Price	11,685	455	
Rounded off target price		460	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: 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	42.1	47.0
Total Revenues	**6,359.7**	**7,099.1**	**8,094.3**	**9,143.9**
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	83.0	76.4
Depreciation	129.9	110.0	122.5	130.2
PBT	**631.4**	**818.4**	**923.7**	**1,068.5**
Total Tax	183.6	206.9	233.7	270.3
Reported PAT	**447.8**	**611.5**	**690.0**	**798.2**
Adjusted PAT	**447.8**	**611.5**	**690.0**	**798.2**
EPS (Diluted)	**17.5**	**23.8**	**26.9**	**31.1**

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement (₹ crore)

₹ crore	FY22	FY23	FY24E	FY25E
Profit after Tax	**447.8**	**611.5**	**690.0**	**798.2**
Depreciation	129.9	110.0	122.5	130.2
Other Income	-54.2	-38.3	-42.1	-47.0
CF before WC changes	**787.2**	**953.9**	**1,087.0**	**1,228.1**
Net Inc. in Current Assets	-689.0	-861.7	-450.1	-556.7
Net Inc. in Current Liabilities	196.7	-67.2	500.5	282.8
Net CF from Op. Activities	**111.3**	**-181.9**	**903.8**	**683.8**
(Purchase)/Sale of FA	-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	42.1	47.0
Net CF from Inv.Activities	**-72.4**	**-132.6**	**-537.9**	**-533.0**
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-80.1	-63.8	-83.0	-76.4
Increase/Decrease in Debt	-183.2	234.2	0.0	-250.0
Dividend Paid	-12.8	-12.8	-12.8	-12.8
Net CF from Fin. Activities	**-279.5**	**160.3**	**-95.8**	**-339.2**
Net Cash flow	**-240.6**	**-154.3**	**270.0**	**-188.4**
Opening Cash/ Cash Equiv.	768.2	527.7	373.4	643.4
Closing Cash/ Cash Equiv.	**527.7**	**373.4**	**643.4**	**455.0**

Source: Company, ICICI Direct Research

Exhibit 9: 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	4,567.4	5,352.8
Networth	**3,340.2**	**3,941.6**	**4,618.7**	**5,404.1**
Secured Loan	215.8	450.0	450.0	200.0
Unsecured Loan	-	-	-	-
Total Debt	**215.8**	**450.0**	**450.0**	**200.0**
Deferred Tax Liability	-	-	-	-
Total Liabilities	**3,556.0**	**4,391.5**	**5,068.7**	**5,604.0**
Assets				
Gross Block	1,140.5	1,182.4	1,262.4	1,342.4
Net Block	587.6	531.4	488.9	438.7
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	643.4	455.0
Total Current Assets	3,507.0	4,214.5	4,934.5	5,302.9
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	2,755.1	2,840.7
Total Assets	**3,556.0**	**4,391.5**	**5,068.7**	**5,604.0**

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per Share Data				
EPS (Fully Diluted)	17.5	23.8	26.9	31.1
Cash EPS	22.5	28.1	31.7	36.2
BV	130.2	153.6	180.0	210.7
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	8.6	8.8
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	14.9	14.8
RoCE	20.0	20.1	19.9	20.4
RoIC	21.7	21.0	21.8	21.3
Valuation Ratios				
EV / EBITDA	11.6	10.0	8.5	7.5
P/E	21.1	15.4	13.7	11.8
EV / Net Sales	1.4	1.3	1.1	1.0
Market Cap / Sales	1.5	1.3	1.2	1.0
Price to Book Value	2.8	2.4	2.0	1.7
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	0.0
Current Ratio	1.7	2.3	2.0	2.0
Debt / EBITDA	0.3	0.5	0.4	0.2
Quick Ratio	**1.4**	**1.8**	**1.6**	**1.6**

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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