

PNC Infratech

BUY

Steady performance

Summary

PNC Infratech (PNCL) Q1FY22 PAT was in-line with our and consensus estimate. Q1FY22 execution (revenue) was up 38% YoY with improved EBITDA margin of 14.0% vs 13.2% YoY. On toll collection front, Q1FY22 collection increased by 15% YoY and to grow further by Q3FY22. Q1FY21 Order book at Rs121bn provides revenue visibility (equals 2x TTM Revenue) and going ahead PNCL is focusing more on road construction project. We maintain BUY rating on the stock with revised TP of Rs390 (earlier Rs331). We now value construction business at 14x versus 12x earlier and at TP, implied valuation is 15x FY23E EPS (equal to +1 STD of its mean). Positive in PNCL remains order book visibility, lean balance sheet for the growth and it is beneficiary of capital expenditure in road construction in India.

Key Highlights and Investment Rationale

- Q1FY22 Snapshot:** PNCL revenue increased by 38% YoY at Rs13bn. EBITDA was up by 47% YoY with EBITDA margin of 14.0% vs 13.2% YoY. PAT stood at Rs0.9bn (up 55% YoY) led by EBITDA increase and lower interest. PNCL targets FY22 revenue at 20% YoY with EBITDA margin at ~13.5-14%. FY22 Tax to be at 28.5%.
- Focus shift back to road sector:** Q1FY21 Order book at Rs121bn (equals 2x TTM Revenue) comprises of roads at 90% and water and Irrigation projects at 10%. But going ahead, PNCL is focusing more on road sector and looking to stabilize the existing order win in water supply and irrigation. In Q1FY22, order inflow is Rs17bn and for FY22 PNCL has re-iterated its guidance of order inflow of Rs70-80bn.
- Internal accruals to fund growth:** On standalone, Net cash is at Rs3bn. On Consolidated, Gross Debt/ Cash and Bank balance at Rs43bn/ Rs14bn implying Net Debt/ Equity at 1.37x. PNCL's equity requirements for all 11 HAM projects is at Rs15bn. Out of which company has already infused Rs6.2bn and the balance to get invested from internal accruals over the next 3 years.

TP	Rs390	
CMP	Rs310	
Potential upside / downside	+26%	

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	20.7	25.8
Consensus	18.5	21.6
% difference	11.7	19.3

Shareholding Pattern (%)

Promoters	56.1
FII	9.3
DII	29.2
Public	5.4

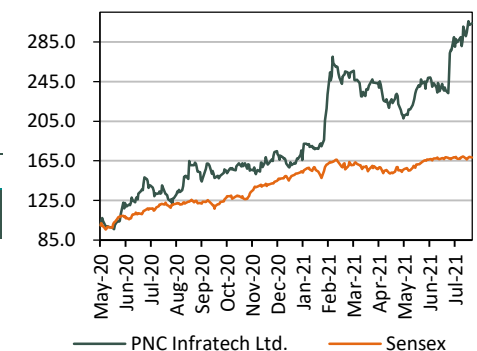
Price Performance (%)

	-1m	-3m	-12m
Absolute	1.8	35.6	121.2
Rel to Sensex	(2.9)	23.0	78.2

Key Stock Data

Bloomberg / Reuters	PNCL IN / PNCL.BO
Sector	Construction
Shares o/s (mn)	257
Market cap. (Rs mn)	79,604
Market cap. (US\$ mn)	1,072
3-m daily avg Trd value (Rs mn)	261.1
52-week high / low	Rs332 / 139
Sensex / Nifty	54,844 / 16,364

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	30,969	48,779	49,254	60,754	72,904
EBITDA	4,573	7,643	6,728	8,519	10,207
EBITDA (%)	14.8	15.7	13.7	14.0	14.0
Adj. PAT	3,249	4,603	3,619	5,314	6,621
EPS (Rs)	12.7	17.9	14.1	20.7	25.8
EPS Growth (%)	29.4	41.7	(21.4)	46.8	24.6
PE (x)	24.5	17.3	22.0	15.0	12.0
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	17.3	9.7	11.1	8.8	7.2
RoE (%)	16.6	19.7	13.3	16.8	17.7
RoCE (%)	15.0	20.6	16.0	19.1	20.4

Source: IDBI Capital Research;

Conference call takeaways:

- In Q1FY22 awarding activity remained muted (Apr-May' 21). But with robust NHAI pipeline and steady stream of funds, the ordering activity is expected to remain buoyant in FY22 and PNCL to continue focusing on road sector.
- Currently PNCL has a total of 18 projects on PPP format comprising 4 BOT-Toll/ 2 BOT-Annuity/ 1 OMT / 11 HAM assets. Out of the 18 projects, 11 are operational and 7 are under construction.
- Q1FY21 Order book stood at Rs121bn (equals 2x TTM Revenue) comprising Roads EPC/ Roads HAM/ Water and Irrigation projects at 33%/ 57%/ 10%. During Q1FY22 PNCL has received appointment date for 2 EPC projects and 1 HAM project.
- On bidding front, PNCL has submitted 10 EPC / 6 HAM bids worth Rs110bn and 35-40 bids are already in the pipeline. Going ahead, company is expected to submit further bids worth Rs300bn to NHAI by Q3FY22.
- PNCL expects water project execution to commence from Q2FY22. Going forward out of the total project worth Rs34bn, company expects to complete projects worth Rs6-8bn by FY22.
- On Standalone basis, Q1FY22 Net worth stood at Rs30bn. Total Debt (equipment finance debt) stood at Rs4bn and no working capital loan. Total Cash and Bank balance stood at Rs7bn and Net cash at Rs3bn. On Consolidated basis, Q1FY22 Net worth stood at Rs32bn. Total Debt stood at Rs43bn. Total Cash and Bank balance (incl. current investments) stood at Rs14bn. Net Debt/ Equity at 1.37x
- Equity requirements for all 11 HAM projects stood at Rs15bn. Out of this company has already infused Rs6.2bn till Q1FY22 and the balance is expected to be invested over the next 2-3 years. This will be funded through internal accruals generated during the same period. PNCL mentioned that incremental equity infusion for HAM projects is expected to be Rs3.5bn / Rs3.2bn for FY22/ FY23. In Q1FY22 company has already infused Rs0.2bn of equity.
- On Capex front, PNCL has guided capex of Rs1.8bn for FY22. And out of this, company has already incurred Rs0.1bn in Q1FY22. Q1FY22 Debtors days stood at 76 days vs 62 days QoQ. This was led by Nagpur Bombay project and Purvanchal project as payment for June was received in July' 21.
- Q1FY22 Mobilisation advance / Retention money stood at Rs5.9bn/ Rs1.4bn. Payables stood at Rs5.3bn and Inventories at Rs4bn.
- Giving guidance, PNCL expects FY22 revenue to grow by 20% YoY and maintain EBITDA margin around 13.5-14% for FY22. For FY22 company expects tax to be at 28.5%.

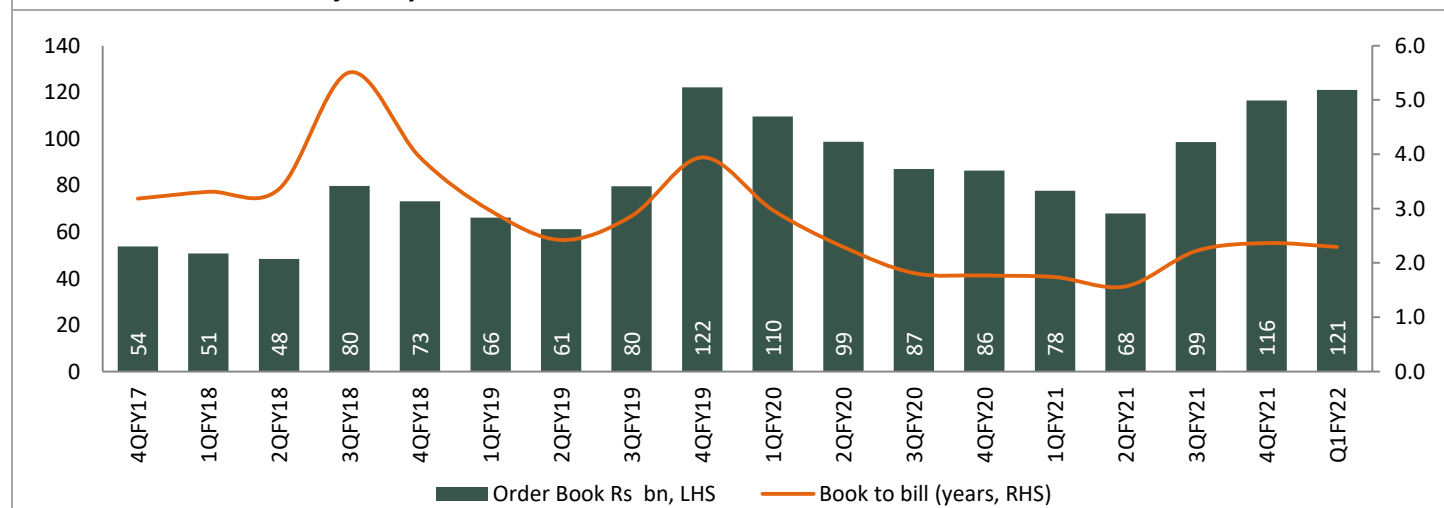
Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q1FY22	Q1FY21	YoY Chg (%)	Q4FY21	QoQ Chg (%)
Net Sales	12,512	9,053	38.2	16,443	-23.9
EBIDTA	1,754	1,198	46.5	2,324	-24.5
<i>EBITDA margin (%)</i>	14.0	13.2		14.1	
Other income	178	191	-7.1	171	4.1
PBIDT	1,932	1,389	39.1	2,494	-22.5
Depreciation	315	270	16.6	300	5.0
Interest	180	253	-28.7	148	22.0
Pre-tax profit	1,437	866	65.9	2,047	-29.8
Tax	504	265	90.3	753	-33.1
Adjusted net profit	933	601	55.2	1,294	-27.9

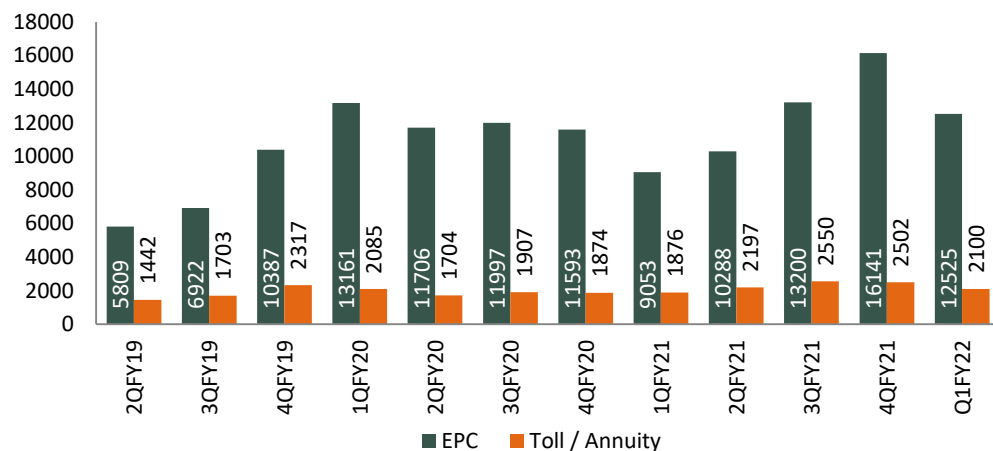
Source: Company

Exhibit 2: Order-book trajectory



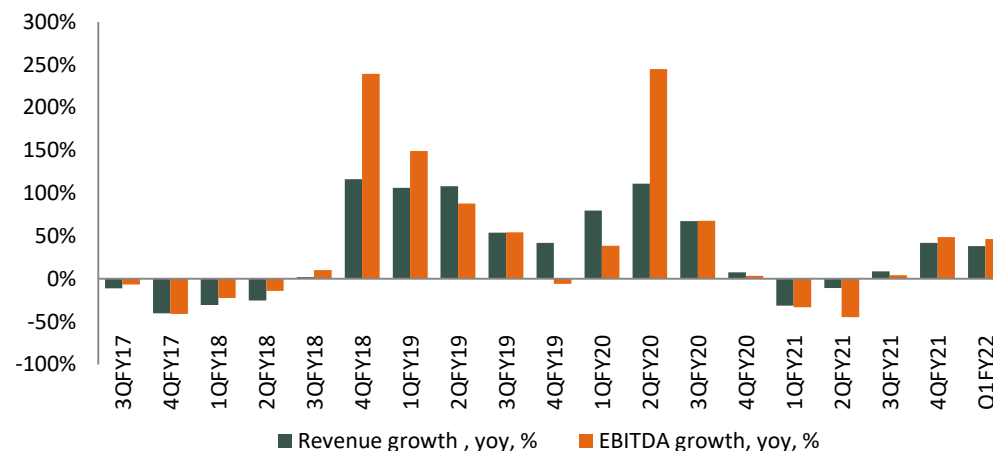
Source: Company

Exhibit 3: Revenue Breakup, EPC at 86% has increased over the years



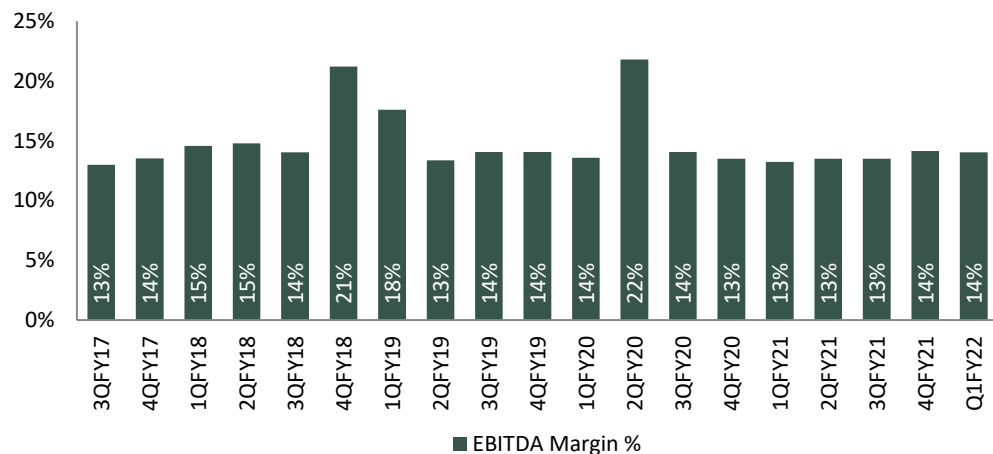
Source : Company

Exhibit 4: Execution lumpy in nature



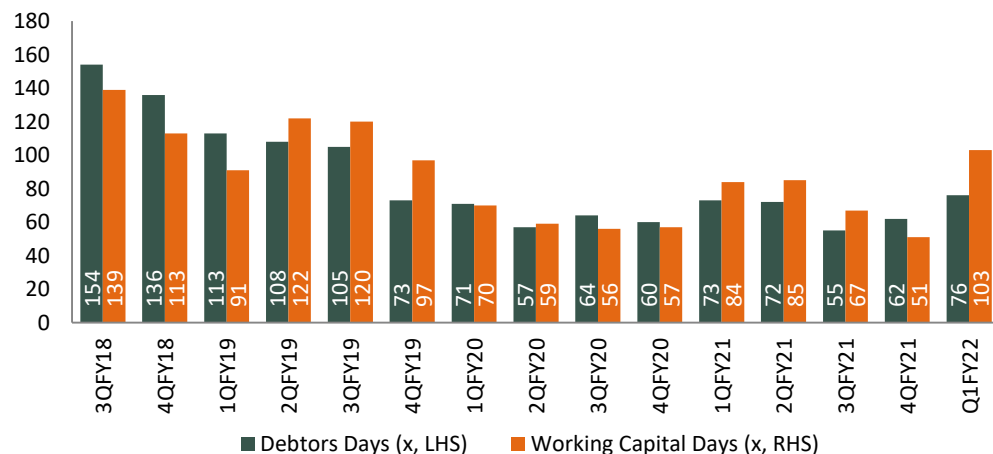
Source : Company

Exhibit 5: EBITDA margin stable (%)



Source : Company

Exhibit 6: Q1FY22 Net Working Capital at 103days, higher QoQ



Source Company

Exhibit 7: SOTP based TP

	FY23E
PAT Rs mn	6,621
Target Multiple (x)	14
Equity value (Rs mn)	92,694
No of shares (mn)	257
Value per share (Rs)	361
FY20 BV of Investment Rs/sh	29
Target Price (Rs/sh)	390

Source: Company; IDBI Capital Research

Exhibit 8: PER Valuation band



Source: Bloomberg

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net sales	48,779	49,254	60,754	72,904
<i>Growth (%)</i>	57.5	1.0	23.3	20.0
Operating expenses	(41,136)	(42,527)	(52,235)	(62,698)
EBITDA	7,643	6,728	8,519	10,207
<i>Growth (%)</i>	67.1	-12.0	26.6	19.8
Depreciation	(1,264)	(1,124)	(1,211)	(1,272)
EBIT	6,379	5,604	7,308	8,935
Interest paid	(1,144)	(771)	(610)	(800)
Other income	885	752	660	693
Pre-tax profit	6,120	5,585	7,357	8,828
Tax	(1,517)	(1,966)	(2,043)	(2,207)
<i>Effective tax rate (%)</i>	24.8	35.2	27.8	25.0
Net profit	4,603	3,619	5,314	6,621
Exceptional items	-	-	-	-
Adjusted net profit	4,603	3,619	5,314	6,621
<i>Growth (%)</i>	41.7	(21.4)	46.8	24.6
<i>Shares o/s (mn nos)</i>	257	257	257	257

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Pre-tax profit	6,120	5,585	7,357	8,828
Depreciation	1,264	1,124	1,211	1,272
Tax paid	(1,612)	(1,998)	(2,043)	(2,207)
Chg in working capital	1,823	(2,261)	(2,544)	(1,824)
Other operating activities	531	282	(50)	107
Cash flow from operations (a)	8,126	2,732	3,931	6,175
Capital expenditure	(909)	(1,820)	(750)	(750)
Chg in investments	(1,004)	(961)	(3,500)	(3,190)
Other investing activities	(394)	29	366	384
Cash flow from investing (b)	(2,307)	(2,751)	(3,884)	(3,556)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(523)	693	(372)	(366)
Dividend (incl. tax)	(309)	-	(128)	(128)
Chg in minorities	-	-	-	-
Other financing activities	(683)	(619)	(610)	(800)
Cash flow from financing (c)	(1,516)	74	(1,111)	(1,294)
Net chg in cash (a+b+c)	4,304	55	(1,063)	1,326

Balance Sheet

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net fixed assets	5,880	6,592	6,130	5,608
Investments	8,495	8,653	12,153	15,343
Other non-curr assets	5,429	6,113	6,407	6,716
Current assets	24,298	27,211	29,631	34,966
Inventories	2,673	3,536	4,343	5,213
Sundry Debtors	8,035	8,392	9,987	11,984
Cash and Bank	6,822	6,877	5,788	7,088
Marketable Securities	578	805	805	805
Loans and advances	3,625	3,638	3,820	4,011
Total assets	44,102	48,569	54,321	62,634
Shareholders' funds	25,466	29,085	34,245	40,712
Share capital	513	513	513	513
Reserves & surplus	24,953	28,572	33,732	40,199
Total Debt	2,238	2,529	2,029	1,529
Secured loans	2,238	2,529	2,029	1,529
Unsecured loans	-	-	-	-
Other liabilities	6,463	4,226	4,437	4,659
Curr Liab & prov	9,935	12,730	13,611	15,735
Current liabilities	9,827	12,492	13,343	15,431
Provisions	108	238	268	304
Total liabilities	18,637	19,484	20,076	21,922
Total equity & liabilities	44,103	48,569	54,321	62,634
Book Value (Rs)	99	113	133	159

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	17.9	14.1	20.7	25.8
Adj EPS growth (%)	41.7	(21.4)	46.8	24.6
EBITDA margin (%)	15.7	13.7	14.0	14.0
Pre-tax margin (%)	12.5	11.3	12.1	12.1
ROE (%)	19.7	13.3	16.8	17.7
ROCE (%)	20.6	16.0	19.1	20.4
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.2	1.1	1.2	1.2
Leverage factor (x)	1.7	1.7	1.6	1.6
Net margin (%)	9.4	7.3	8.7	9.1
Net Debt/Equity (x)	(0.2)	(0.2)	(0.1)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	20	26	26	26
Receivable days	60	62	60	60
Payable days	41	62	50	48

Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	17.3	22.0	15.0	12.0
Price / Book value (x)	3.1	2.7	2.3	2.0
PCE (x)	13.6	16.8	12.2	10.1
EV / Net sales (x)	1.5	1.5	1.2	1.0
EV / EBITDA (x)	9.7	11.1	8.8	7.2
Dividend Yield (%)	0.2	0.2	0.2	0.2



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907**Disclaimer**

This report has been published by IDBI Capital Markets & Securities Ltd.(hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Vishal Periwal and Shouvik Chakraborty, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, We will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd.(herein after referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% or more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.