

PNC Infratech

BUY

Margin maintained

Summary

PNC Infratech (PNCL) Q3FY23 PAT came in line with our estimates. Execution (revenue) was stable in Q3 at +7% YoY and importantly, EBITDA margin was maintained QoQ at ~13%. For FY24E, PNCL guides revenue growth at +15% YoY with stable EBITDA margin at 13.3-13.5% in FY24E. In YTD FY23 PNCL has not received any order and it expects new orders of ~Rs80-100bn in Q4FY23E. In the interim, orderbook of Rs178bn provides revenue visibility for ~3 years. Post results, we have introduced FY25E financials, rolled forward our TP to FY25E, we retain our BUY rating on the stock with revised TP of Rs401 valuing the EPC business at 12x FY25E EPS and investment valued at BV (earlier TP Rs355). Stock trades at 11x FY25E EPS and catalyst is conclusion of asset monetization deal, where equity of Rs15.5bn is invested till date.

Key Highlights and Investment Rationale

- Q3FY23 Snapshot:** PNCL revenue improved by 7% YoY at Rs16.3bn. EBITDA at Rs2.1bn was up 26% YoY with EBITDA margin of 12.8% vs 13.3% QoQ and 10.9% YoY. PAT at Rs1.3bn increased by 60% YoY on a low base; QoQ basis EBITDA and PAT were similar to Q2FY23 levels. In Q3FY23, PNC has no early bonus completion booked.
- Asset monetization plan revised:** Company had earlier guided monetization plan of 8 projects (6 HAM, 1 BOT, and 1 Annuity). Currently, company is eyeing stake sale in 12 projects which includes 11 HAM and 1 BOT project. Total equity invested in these projects stand at Rs15.5bn; debt at Rs68bn. There are currently 7 investors that have shown interest in these assets, company anticipates deal finalization in FY24E. Out of 11 projects, due diligence is started for 3 projects.

TP	Rs401
CMP	Rs331
Potential upside/downside	+21%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	0.4	30.7	23.3
Rel to Sensex	(1.3)	31.6	17.9

V/s Consensus			
EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	23	26	31
Consensus	23	25	28
% difference	2.0	2.4	9.6

Key Stock Data	
Bloomberg/Reuters	PNCL IN / PNCL.BO
Sector	Construction
Shares o/s (mn)	257
Market cap. (Rs mn)	84,991
3-m daily avg Trd value (Rs mn)	11.2
52-week high / low	Rs355 / 219
Sensex / Nifty	61,275 / 18,016

Shareholding Pattern (%)	
Promoters	56.1
FII	9.3
DII	29.6
Public	5.0

Financial snapshot

Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	49,254	63,055	69,402	79,255	89,349
Change (yoy, %)	1	28	10	14	13
EBITDA	6,766	7,872	9,401	10,501	11,973
Change (yoy, %)	(11)	16	19	12	14
EBITDA Margin(%)	13.7	12.5	13.5	13.3	13.4
Adj.PAT	3,619	4,478	6,001	6,789	7,854
EPS (Rs)	14	17	23	26	31
Change (yoy, %)	(21)	24	34	13	16
PE(x)	24	19	14	13	11
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	12.1	10.5	8.8	7.9	6.8
RoE (%)	13	14	17	16	16
RoCE (%)	16	16	18	18	18

Source: IDBI Capital Research

Conference call takeaways:

- Company revenue growth guidance is 10% YoY for FY23E, implying 4% YoY revenue increase in Q4FY23E. For FY24E, revenue growth target is set at 15% YoY of which JMM order to contribute 25% to revenue.
- Margin guidance for FY23E is maintained at 13.3-13.5%; similar to 9MFY23 levels; FY24E guidance stands at 13.5%.
- PNCL has not seen any inflows in 9MFY23, however company remains confident of achieving Rs80-100bn inflows in FY23E of which majority are expected in highways. Company anticipates strong bid pipeline for roads and highways in upcoming months.
- Order book stood at Rs178bn, of which 65% account for HAM and 35% for water and canal.
- Out of the 7 HAM projects awarded in Q4FY22, company has received FC for all projects till date; AD pending for 2 projects which is expected to be received by Mar'23, hence complete OB stands executable.
- Total equity requirement stand at Rs24bn, company has already infused Rs12bn till Q3FY23. Further Rs1.4bn/ Rs4.5-5bn/ Rs3.5-4bn infusion is expected in Q4FY23E/ FY24E/ FY25E through internal accruals.
- Capex for 9M stood at Rs370mn, company anticipates FY23E capex spend of Rs1bn, large capex of Rs630mn is expected in Q4FY23. FY24E capex is expected to be at Rs1-1.2bn.
- Q3FY23 Mobilization advance/ Retention money/ Unbilled revenue/ HAM debtors stood at Rs3.9bn/ Rs1.3bn/ Rs1.2bn/ Rs6.1bn.
- In JJM projects, DPRs are approved for 1200 projects worth Rs27bn, out of total 2700 projects worth Rs60bn. DPR for the rest 1500 projects are expected to be approved by Jun'23. PNC execution target is Rs9bn in FY23E of which Rs5.1bn is attained in 9MFY23.
- In terms of asset monetization, company is eyeing stake sale in 12 projects which includes 11 HAM and 1 BOT project. Total equity invested in these projects stand at Rs15.5bn; debt at Rs68bn. There are currently 7 investors that have shown interest in these assets, company anticipates deal finalization in FY24E. Out of 11 projects, due diligence is started for 3 projects.

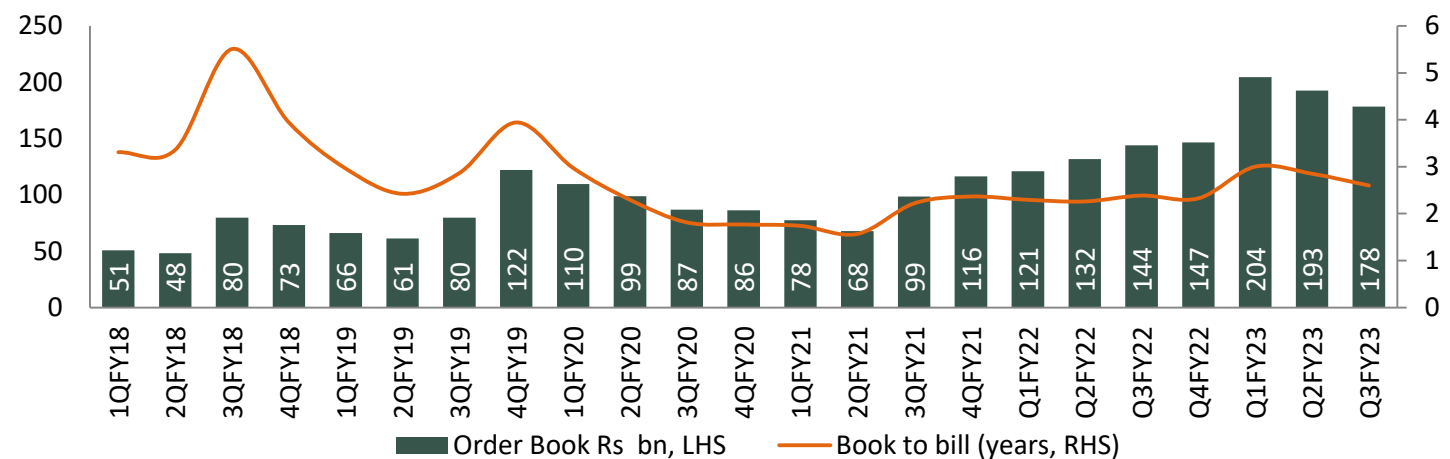
Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q3FY23	Q3FY22	YoY Chg (%)	Q2FY23	QoQ Chg (%)
Net Sales	16,270	15,220	7	15,611	4
EBITDA	2,081	1,655	26	2,070	0
<i>EBITDA margin (%)</i>	<i>12.8</i>	<i>10.9</i>	<i>191bps</i>	<i>13.3</i>	<i>-47bps</i>
Other income	98	106	-7	105	-7
PBIDT	2,178	1,760	24	2,175	0
Depreciation	278	336	-17	274	1
Interest	162	208	-22	155	5
Exceptional items	-	-	NA	-	NA
Adj. pre-tax profit	1,739	1,217	43	1,746	0
Tax	445	407	9	436	2
Reported PAT	1,294	810	60	1,311	-1
Adj PAT	1,294	810	60	1,311	-1

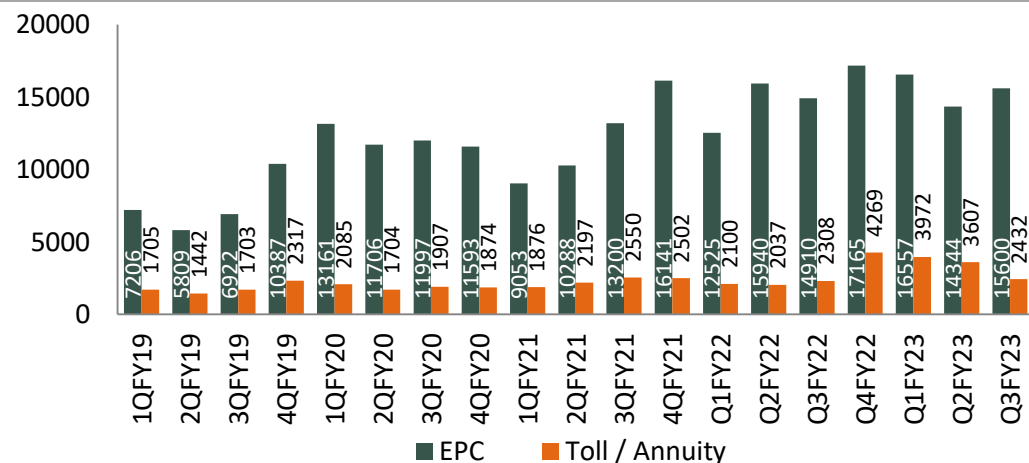
Source: Company

Exhibit 2: Order-book trajectory



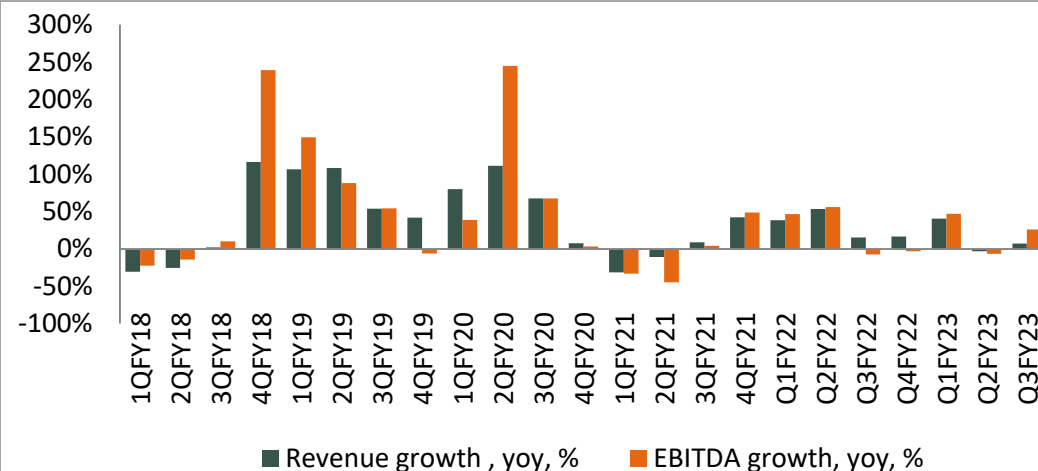
Source: Company

Exhibit 3: Consolidated revenue Breakup: 87% EPC, 13% Toll/ Annuity



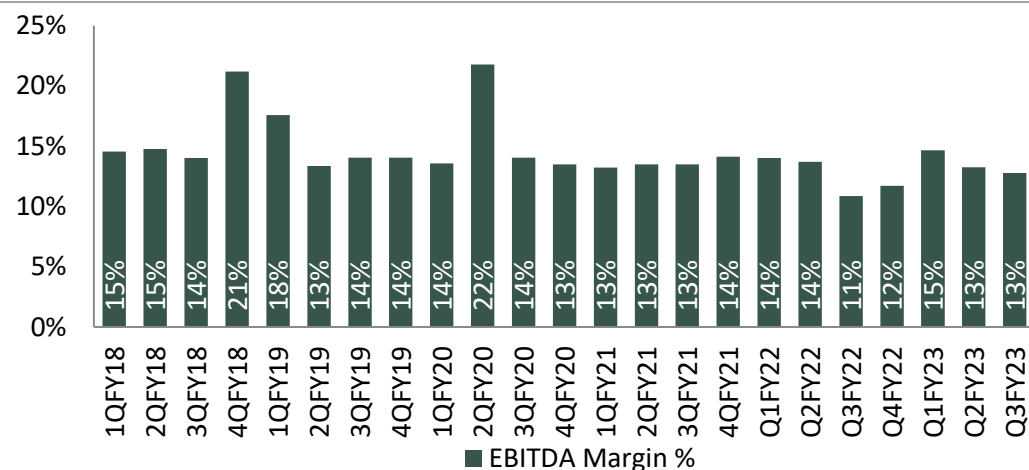
Source : Company

Exhibit 4: Execution up 7% YoY; EBITDA up 26% YoY



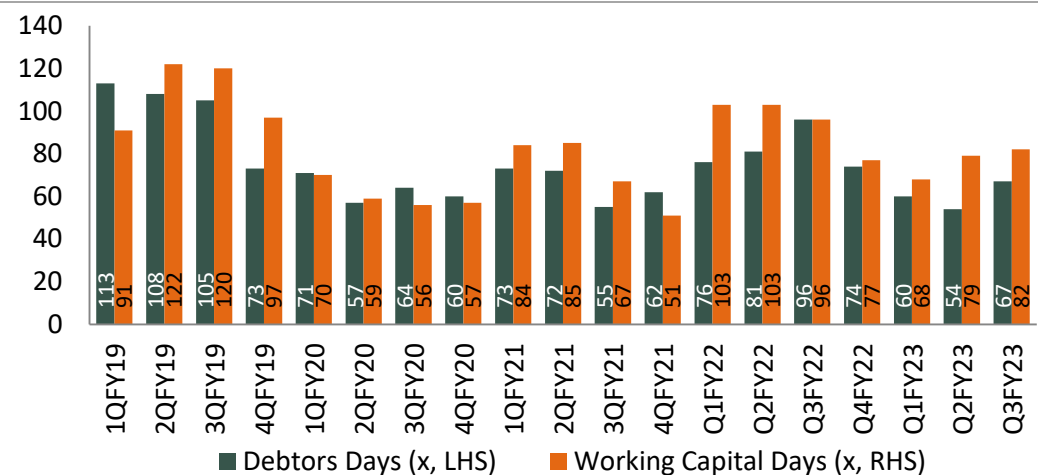
Source : Company

Exhibit 5: EBITDA margin stable



Source : Company

Exhibit 6: Q4FY22 Working Capital at 82 days, increased QoQ



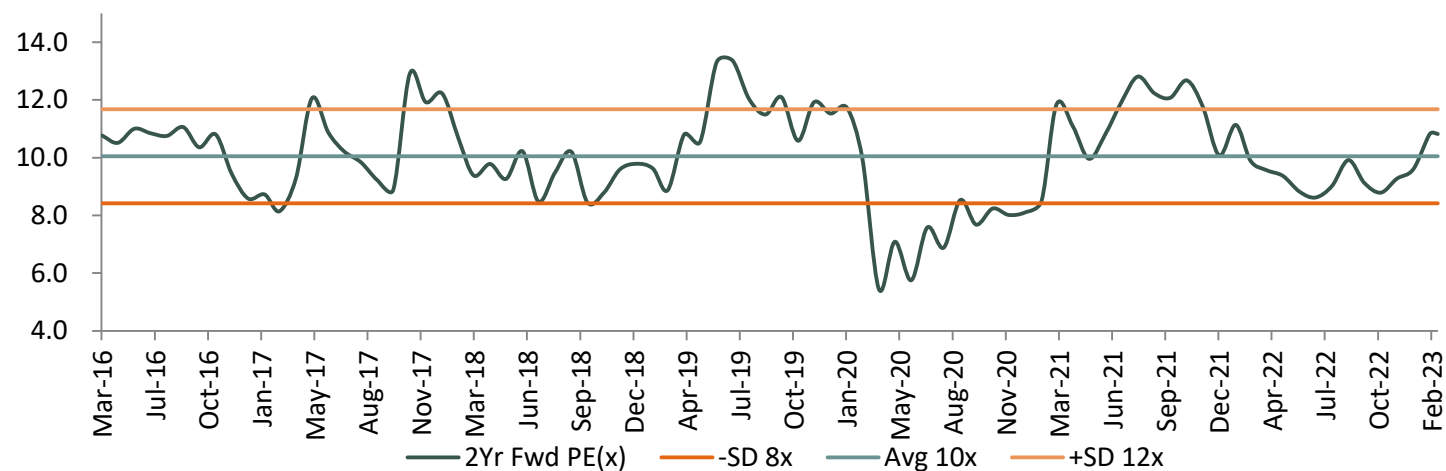
Source: Company

Exhibit 7: SOTP based TP

FY25 PAT Rs mn	7,854
Target Multiple (x)	12
Equity value (Rs mn)	94,245
No of shares (mn)	257
Value per share (Rs)	367
FY22 BV of Investment Rs/sh	34
Target Price (Rs/sh)	401

Source: Company; IDBI Capital Research

Exhibit 8: Valuation band (PE ratio)



Source: Bloomberg, IDBI Capital

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net sales	48,779	49,254	63,055	69,402	79,255	89,349
<i>Change (yoy, %)</i>	57.5	1.0	28.0	10.1	14.2	12.7
Operating expenses	(41,136)	(42,488)	(55,183)	(60,001)	(68,753)	(77,376)
EBITDA	7,643	6,766	7,872	9,401	10,501	11,973
<i>Change (yoy, %)</i>	67.1	-11.5	16.4	19.4	11.7	14.0
<i>Margin (%)</i>	15.7	13.7	12.5	13.5	13.3	13.4
Depreciation	(1,264)	(1,124)	(1,299)	(1,101)	(1,156)	(1,214)
EBIT	6,379	5,642	6,573	8,300	9,345	10,759
Interest paid	(1,144)	(771)	(801)	(665)	(678)	(691)
Other income	885	714	542	367	385	404
Pre-tax profit	6,120	5,585	6,314	8,002	9,052	10,472
Tax	(1,517)	(1,966)	(1,836)	(2,001)	(2,263)	(2,618)
<i>Effective tax rate (%)</i>	24.8	35.2	29.1	25.0	25.0	25.0
Minority Interest	-	-	-	-	-	-
Net profit	4,603	3,619	4,478	6,001	6,789	7,854
Exceptional items	-	-	-	-	-	-
Adjusted net profit	4,603	3,619	4,478	6,001	6,789	7,854
<i>Change (yoy, %)</i>	41.7	(21.4)	23.7	34.0	13.1	15.7
EPS	18	14	17	23	26	31
Dividend per sh	1	1	1	0	0	0
<i>Dividend Payout %</i>	3	4	3	2	2	2

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Shareholders' funds	25,466	29,085	33,402	39,275	45,936	53,661
Share capital	513	513	513	513	513	513
Reserves & surplus	24,953	28,572	32,889	38,762	45,423	53,148
Total Debt	2,238	4,029	2,299	2,199	1,699	1,199
Other liabilities	6,463	4,207	7,219	7,580	7,959	8,357
Curr Liab & prov	9,935	11,248	10,101	10,223	11,310	12,783
Current liabilities	9,827	11,010	9,893	10,012	11,095	12,563
Provisions	108	238	208	211	215	219
Total liabilities	18,637	19,484	19,619	20,002	20,968	22,339
Total equity & liabilities	44,103	48,569	53,021	59,277	66,904	76,000
Net fixed assets	5,880	6,592	5,894	5,892	5,486	5,022
Investments	8,495	8,653	9,517	13,517	18,017	22,517
Other non-curr assets	5,429	6,113	8,240	8,645	9,069	9,515
Current assets	24,298	27,211	29,370	31,223	34,331	38,945
Inventories	2,673	3,536	4,808	5,228	5,990	6,742
Sundry Debtors	8,035	8,392	12,728	14,009	15,998	18,036
Cash and Bank	6,822	6,877	4,068	3,715	3,365	4,463
Marketable Securities	578	805	1,209	1,209	1,209	1,209
Loans and advances	3,625	3,638	3,064	3,217	3,378	3,547
Total assets	44,103	48,569	53,021	59,277	66,904	76,000

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	6,120	5,585	6,314	8,002	9,052	10,472
Depreciation	1,264	1,124	1,299	1,101	1,156	1,214
Tax paid	(1,612)	(1,998)	(1,751)	(2,001)	(2,263)	(2,618)
Chg in working capital	1,823	(2,261)	(6,575)	(1,889)	(2,167)	(1,829)
Other operating activities	531	282	1,592	298	293	287
Cash flow from operations (a)	8,126	2,732	878	5,511	6,071	7,526
Capital expenditure	(909)	(1,820)	(546)	(1,100)	(750)	(750)
Chg in investments	(1,004)	(961)	(1,943)	(4,000)	(4,500)	(4,500)
Other investing activities	(394)	29	1,229	(38)	(40)	(41)
Cash flow from investing (b)	(2,307)	(2,751)	(1,260)	(5,138)	(5,290)	(5,291)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(523)	693	(1,835)	66	(325)	(317)
Dividend (incl. tax)	(309)	-	(128)	(128)	(128)	(128)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(683)	(619)	(464)	(665)	(678)	(691)
Cash flow from financing (c)	(1,516)	74	(2,427)	(727)	(1,132)	(1,136)
Net chg in cash (a+b+c)	4,304	55	(2,809)	(353)	(350)	1,098

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	99	113	130	153	179	209
Adj EPS (Rs)	17.9	14.1	17.5	23.4	26.5	30.6
Adj EPS growth (%)	41.7	-21.4	23.7	34.0	13.1	15.7
EBITDA margin (%)	15.7	13.7	12.5	13.5	13.3	13.4
Pre-tax margin (%)	12.5	11.3	10.0	11.5	11.4	11.7
Net Debt/Equity (x)	-0.20	-0.13	-0.09	-0.07	-0.06	-0.08
ROCE (%)	20.6	15.8	16.4	18.0	17.9	18.1
ROE (%)	19.7	13.3	14.3	16.5	15.9	15.8

DuPont Analysis

Asset turnover (x)	1.2	1.1	1.2	1.2	1.3	1.3
Leverage factor (x)	1.7	1.7	1.6	1.5	1.5	1.4
Net margin (%)	9.4	7.3	7.1	8.6	8.6	8.8

Working Capital & Liquidity ratio

Inventory days	20	26	28	27	28	28
Receivable days	60	62	74	74	74	74
Payable days	41	62	34	28	26	26

Valuations

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	18.6	23.6	19.1	14.2	12.6	10.9
Price/Book value (x)	3.4	2.9	2.6	2.2	1.9	1.6
EV/Net sales (x)	1.6	1.7	1.3	1.2	1.0	0.9
EV/EBITDA (x)	10.5	12.1	10.5	8.8	7.9	6.8
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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