

PNC Infratech

BUY

Good quarter

Summary

PNC Infratech (PNCL) Q2FY22 PAT came 44%/23% higher than our/ consensus estimate. Beat in the result is led by better execution. As it reported revenue growth of 53% YoY versus our estimate of 20% YoY. H1FY22 Order book at Rs Rs132bn equals 2x TTM Revenue, with an order inflow of Rs27bn during the quarter. Company is targeting order inflow of Rs80bn for FY22. In H1FY22, PNC has reported revenue growth of 46% YoY and has guided for revenue growth of 20-25% with EBITDA margin of ~13.5-13.75%. We introduce FY24E and roll forward TP valuing PNC at Rs406 (exhibit 7). Maintain BUY rating, stock trades closer its historical average at 12x, 2 years forward EPS. PNCL remains our top pick in the construction with order book visibility, lean balance sheet for the growth and key beneficiary of capital expenditure in road construction in India.

Key Highlights and Investment Rationale

- Q2FY22 Snapshot:** PNCL revenue increased by 53% YoY at Rs16bn. EBITDA was up 56% at Rs2.2bn with EBITDA margin of 13.7% vs 13.5% YoY. Q2FY22 PAT stood at Rs1.3bn (+95% YoY / +45% QoQ). PAT growth is supported by lower tax rate at 26% vs 36% YoY.
- Road sector contribute 72% to order book:** H1FY22 Order book at Rs132bn (equals 2x TTM Revenue) comprises of roads at 72% and water and Irrigation projects at 28%. Q2FY22 order inflow stood at Rs27bn. Going forward, company is targeting an order inflow of Rs80bn (HAM: EPC at 50:50) in FY22. Also company is targeting to bid for NHA projects worth Rs250bn in the coming 2-3 months and also expects project opportunities under the Jal Jeevan Mission.
- Balance sheet continues to remain lean:** On standalone, Net cash is at Rs1.7bn. On Consolidated, Gross Debt/ Cash and Bank balance at Rs44bn/ Rs11bn implying Net Debt/ Equity at 1.35x. PNCL's equity requirements for all 11 HAM projects is at Rs14.7bn. Out of which company has already infused Rs6.7bn and the balance Rs8bn to get invested from internal accruals over the next 3 years.

TP	Rs406		
CMP	Rs329		
Potential upside / downside	+23%		
Previous Rating	BUY		

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	20.7	25.7	31.4
Consensus	19.4	23.5	27.8
% difference	6.9	9.2	12.9

Shareholding Pattern (%)

Promoters	56.1
FII	11.6
DII	28.3
Public	4.0

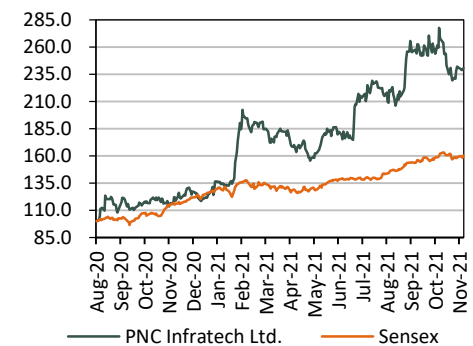
Price Performance (%)

	-1m	-3m	-12m
Absolute	(12.8)	6.7	100.1
Rel to Sensex	(11.9)	(2.8)	61.0

Key Stock Data

Bloomberg / Reuters	PNCL IN / PNCL.BO
Sector	Construction
Shares o/s (mn)	257
Market cap. (Rs mn)	84,401
Market cap. (US\$ mn)	1,126
3-m daily avg Trd value (Rs mn)	42.8
52-week high / low	Rs396 / 157
Sensex / Nifty	60,719 / 18,110

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	48,779	49,254	61,957	74,348	89,218
EBITDA	7,643	6,728	8,540	10,037	12,044
EBITDA (%)	15.7	13.7	13.8	13.5	13.5
Adj. PAT	4,603	3,619	5,311	6,583	8,057
EPS (Rs)	17.9	14.1	20.7	25.7	31.4
EPS Growth (%)	41.7	(21.4)	46.7	24.0	22.4
PE (x)	18.2	23.2	15.8	12.7	10.4
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	10.3	11.7	9.3	7.7	6.2
RoE (%)	19.7	13.3	16.8	17.6	18.1
RoCE (%)	20.6	16.0	19.0	19.9	21.0

Source: IDBI Capital Research;

Conference call takeaways:

- With strong pipeline from both Central and State authorities under Bharatmala Pariyojana and NIP, PNCL's is targeting to bid for NHAI projects worth Rs250bn in the coming 2-3 months.
- PNCL targets to diversify in project development business to maintain growth momentum. Supply in rural drinking water sector is expected to continue as one of growth sectors with more project opportunities expected under the Jal Jeevan Mission.
- On Jal Jeevan Mission projects front, PNCL has water projects in UP in 2 phases (Phase 1 / Phase 2 of Rs2.6bn/ Rs30bn). At present company has completed 10% of work under Phase 1 and for Phase 2 it has already commenced drilling of the wells for 25 locations. Company expects to generate some revenue from Q3FY22 from these projects.
- Currently PNCL has a total of 15 projects on PPP format comprising BOT-Toll/ BOT-Annuity/ OMT / HAM assets. Out of this, company has 11 HAM projects worth Rs160bn. In HAM portfolio, company has received PCOD for 4 projects and 7 are under construction.
- H1FY22 Order book stood at Rs132bn (equals 2x TTM Revenue) comprising Roads EPC/ Roads HAM/ Water and Irrigation projects at 24%/ 48%/ 28%. FY22E Order inflow is expected at Rs80bn comprising HAM: EPC at 50:50
- Total equity requirement for 5 HAM + 1 Annuity stood at Rs6.8bn. And total equity requirement for 11 HAM stood at Rs14.7bn. Out of this company has already infused Rs6.7bn (remaining Rs8bn) till Q2FY22. And equity requirements for FY22/FY23/ FY24 stood at Rs3.3bn/ Rs3.2bn/ Rs2bn. This will be funded through internal accruals generated during the same period.
- On Standalone basis, Q2FY22 Net worth stood at Rs31bn. Total Debt (equipment finance debt) stood at Rs3.4bn and no working capital loan. Total Cash and Bank balance stood at Rs5bn and Net cash at Rs1.7bn. Net Debt/ Equity at 0.11x. On Consolidated basis, Q2FY22 Net worth stood at Rs33bn. Total Debt stood at Rs44bn. Total Cash and Bank balance (incl. current investments) stood at Rs11bn. Net Debt/ Equity at 1.35x.
- H1FY22 capex is at Rs0.2bn. Going forward, company expects capex at Rs1-1.2bn in FY22
- Q2FY22 Mobilisation advance / Retention money stood at Rs5bn/ Rs1.6bn.
- Q2FY22 Bank limit Fund/ Non-fund based stood at Rs10bn/ Rs50bn. H1FY22 equity invested stood at Rs0.2bn.
- Giving guidance, PNCL expects FY22 revenue to grow by 20-25% YoY at ~Rs60bn and maintain EBITDA margin ~13.5-13.75% for FY22.

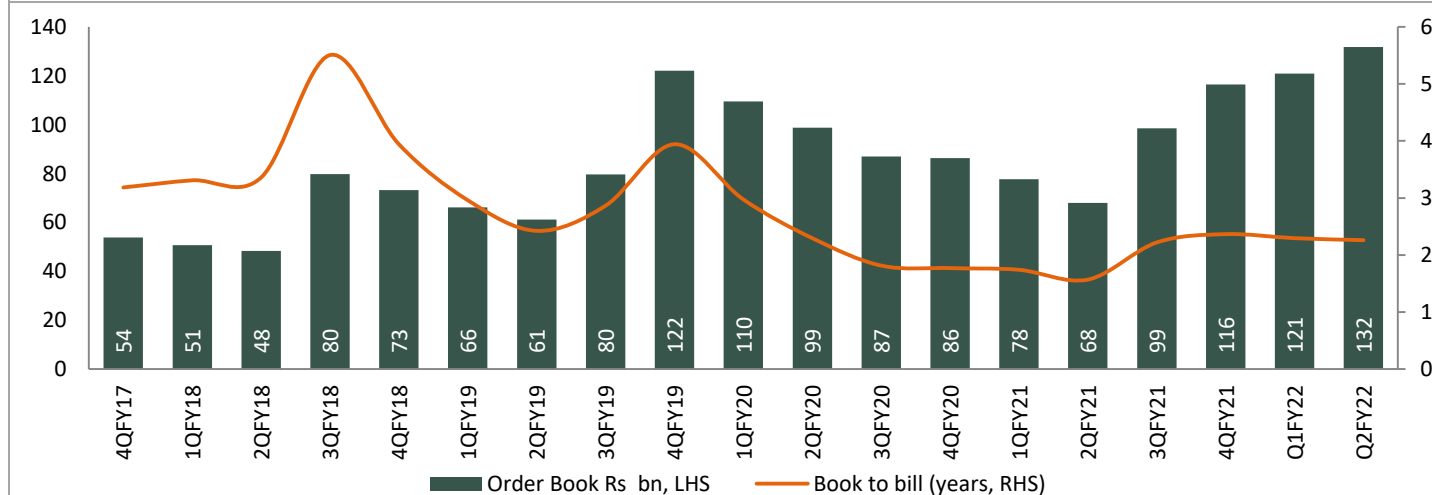
Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q2FY22	Q2FY21	YoY Chg (%)	Q1FY22	QoQ Chg (%)
Net Sales	16,150	10,535	53	12,512	29
EBIDTA	2,216	1,421	56	1,754	26
<i>EBITDA margin (%)</i>	<i>13.7</i>	<i>13.5</i>	<i>23 bps</i>	<i>14.0</i>	<i>-30 bps</i>
Other income	174	148	18	178	-2
PBITD	2,391	1,569	52	1,932	24
Depreciation	328	272	20	315	4
Interest	243	218	11	180	35
Pre-tax profit	1,820	1,079	69	1,437	27
Tax	466	386	21	504	-8
Adjusted net profit	1,354	693	95	933	45

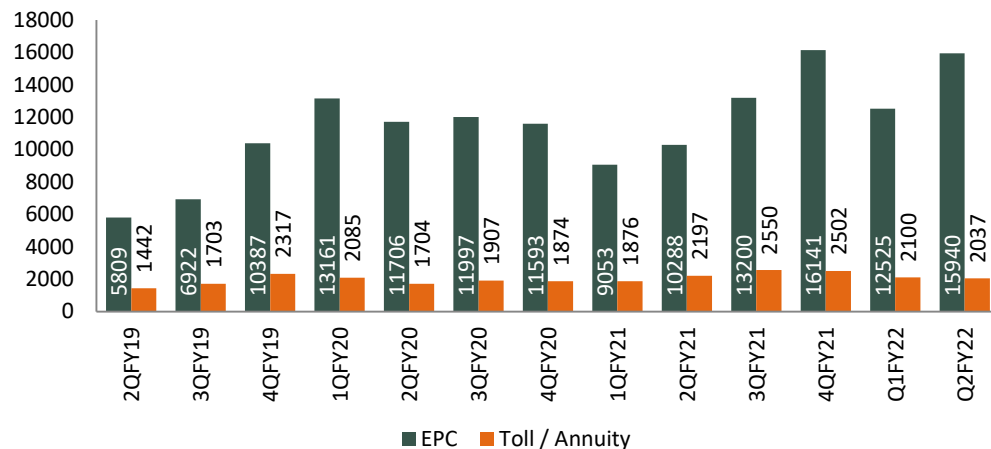
Source: Company

Exhibit 2: Order-book trajectory



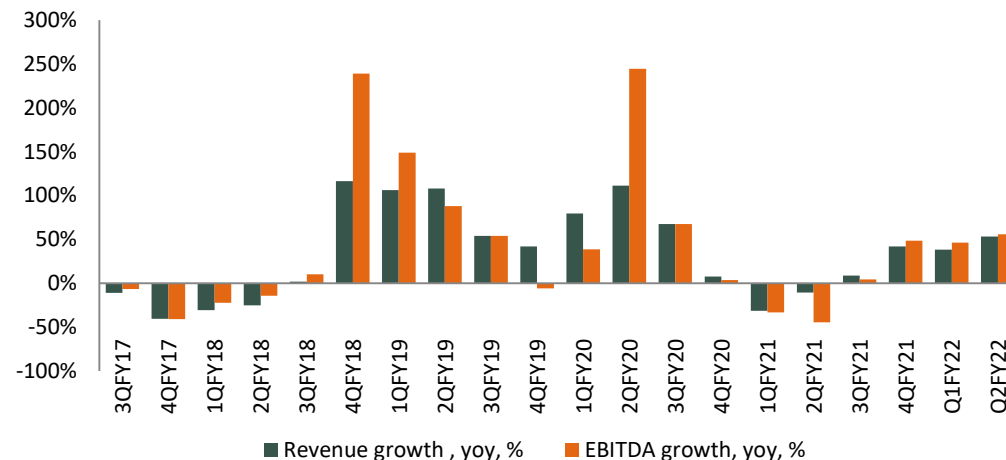
Source: Company

Exhibit 3: Revenue Breakup



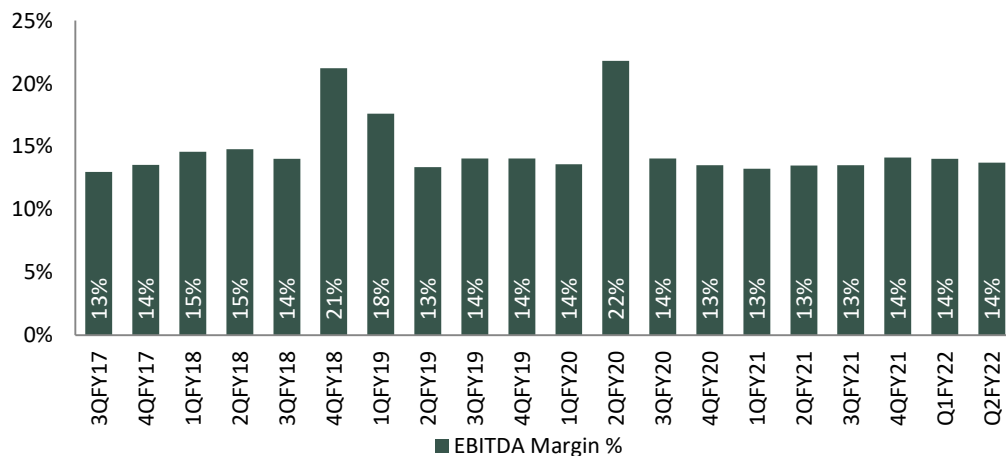
Source : Company

Exhibit 4: Execution healthy



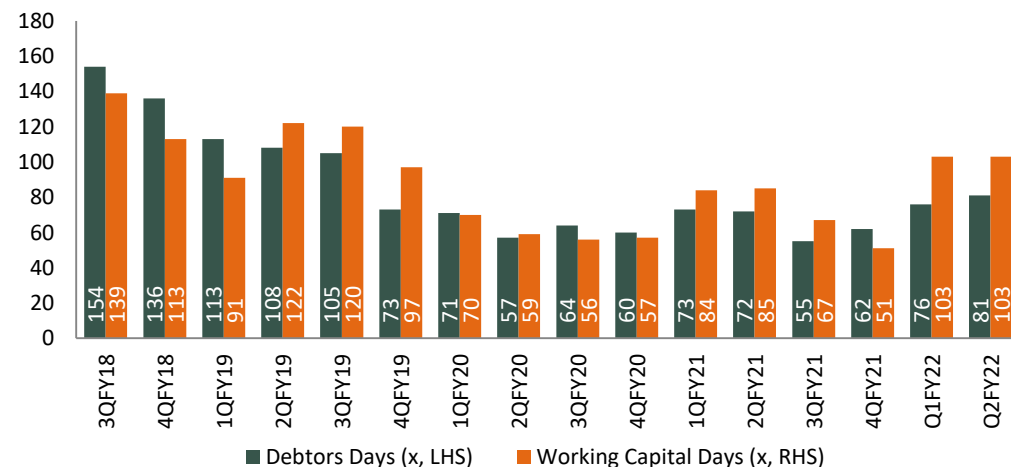
Source : Company

Exhibit 5: EBITDA margin stable (%)



Source : Company

Exhibit 6: Q2FY22 Net Working Capital at 103days, flat QoQ



Source Company

Exhibit 7: SOTP based TP

	FY24E
PAT Rs mn	8,057
Target Multiple (x)	12
Equity value (Rs mn)	96,682
No of shares (mn)	257
Value per share (Rs)	377
FY20 BV of Investment Rs/sh	29
Target Price (Rs/sh)	406

Source: Company; IDBI Capital Research

Exhibit 8: PER Valuation band



Source: Bloomberg

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Net sales	49,254	61,957	74,348	89,218
<i>Growth (%)</i>	1.0	25.8	20.0	20.0
Operating expenses	(42,527)	(53,417)	(64,311)	(77,174)
EBITDA	6,728	8,540	10,037	12,044
<i>Growth (%)</i>	-12.0	26.9	17.5	20.0
Depreciation	(1,124)	(1,253)	(1,316)	(1,382)
EBIT	5,604	7,286	8,721	10,662
Interest paid	(771)	(673)	(686)	(700)
Other income	752	707	743	780
Pre-tax profit	5,585	7,321	8,777	10,742
Tax	(1,966)	(2,010)	(2,194)	(2,686)
<i>Effective tax rate (%)</i>	35.2	27.5	25.0	25.0
Net profit	3,619	5,311	6,583	8,057
Exceptional items	-	-	-	-
Adjusted net profit	3,619	5,311	6,583	8,057
<i>Growth (%)</i>	(21.4)	46.7	24.0	22.4
<i>Shares o/s (mn nos)</i>	257	257	257	257

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Pre-tax profit	5,585	7,321	8,777	10,742
Depreciation	1,124	1,253	1,316	1,382
Tax paid	(1,998)	(2,010)	(2,194)	(2,686)
Chg in working capital	(2,261)	(2,747)	(1,863)	(1,915)
Other operating activities	282	(35)	(57)	(80)
Cash flow from operations (a)	2,732	3,782	5,979	7,444
Capital expenditure	(1,820)	(750)	(750)	(750)
Chg in investments	(961)	(3,500)	(3,190)	(3,190)
Other investing activities	29	413	433	455
Cash flow from investing (b)	(2,751)	(3,837)	(3,507)	(3,485)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	693	(372)	(366)	(359)
Dividend (incl. tax)	-	(128)	(128)	(128)
Chg in minorities	-	-	-	-
Other financing activities	(619)	(673)	(686)	(700)
Cash flow from financing (c)	74	(1,173)	(1,180)	(1,187)
Net chg in cash (a+b+c)	55	(1,228)	1,293	2,772

Balance Sheet

(Rs mn)

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Net fixed assets	6,592	6,088	5,522	4,890
Investments	8,653	12,153	15,343	18,533
Other non-curr assets	6,113	6,407	6,716	7,041
Current assets	27,211	29,859	35,257	42,914
Inventories	3,536	4,441	5,347	6,417
Sundry Debtors	8,392	10,185	12,222	14,666
Cash and Bank	6,877	5,623	6,891	9,637
Marketable Securities	805	805	805	805
Loans and advances	3,638	3,820	4,011	4,212
Total assets	48,569	54,507	62,838	73,377
Shareholders' funds	29,085	34,241	40,670	48,573
Share capital	513	513	513	513
Reserves & surplus	28,572	33,728	40,157	48,060
Total Debt	2,529	2,029	1,529	1,029
Secured loans	2,529	2,029	1,529	1,029
Unsecured loans	-	-	-	-
Other liabilities	4,226	4,437	4,659	4,892
Curr Liab & prov	12,730	13,801	15,980	18,884
Current liabilities	12,492	13,533	15,676	18,537
Provisions	238	268	304	347
Total liabilities	19,484	20,266	22,168	24,804
Total equity & liabilities	48,569	54,507	62,838	73,377
Book Value (Rs)	113	133	159	189

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Adj EPS (Rs)	14.1	20.7	25.7	31.4
Adj EPS growth (%)	-21.4	46.7	24.0	22.4
EBITDA margin (%)	13.7	13.8	13.5	13.5
Pre-tax margin (%)	11.3	11.8	11.8	12.0
ROE (%)	13.3	16.8	17.6	18.1
ROCE (%)	16.0	19.0	19.9	21.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.1	1.2	1.3	1.3
Leverage factor (x)	1.7	1.6	1.6	1.5
Net margin (%)	7.3	8.6	8.9	9.0
Net Debt/Equity (x)	-0.2	-0.1	-0.2	-0.2
Working Capital & Liquidity ratio				
Inventory days	26	26	26	26
Receivable days	62	60	60	60
Payable days	62	50	48	48

Valuation

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
PER (x)	23.2	15.8	12.7	10.4
Price / Book value (x)	2.9	2.4	2.1	1.7
PCE (x)	17.7	12.8	10.6	8.9
EV / Net sales (x)	1.6	1.3	1.0	0.8
EV / EBITDA (x)	11.7	9.3	7.7	6.2
Dividend Yield (%)	0.2	0.2	0.2	0.2



Notes

Dealing

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

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