

PNC Infratech

BUY

Guides for double digit revenue increase

Summary

PNC Infratech (PNCL) Q4FY23 PAT was in line with our/ consensus est. For FY23, its revenue increased by 13% YoY (guidance was 10%) with EBITDA margin of 13.5% (in-line with guidance). PNCL guides, revenue to increase by 15% YoY in FY24E with EBITDA margin of 13-13.5%. We understand, given execution of high margin water projects, margin could surprise on upside. Order inflow was lower in FY23 at Rs49bn versus FY22. And PNCL to arrest this concern has diversified in sector other than roads and guides inflow of Rs100-120bn in FY24E. FY23 order book of Rs205bn (incl L1) has 33% orders from sector other than roads. Retain BUY rating on the stock with revised TP of Rs432 (earlier TP Rs401, exh 7), this factor better execution (upgrade revenue up 3%/4% for FY24E/FY25E), latest BV of investment. Catalyst is uptick in EBITDA margin, asset monetization.

Key Highlights and Investment Rationale

- Q4FY23 Snapshot:** PNCL revenue increased by 10% YoY and EBITDA margin was stable at 13.3%. PAT at Rs1.8bn increased by 33% YoY on a low base. In Q4FY23 company has no early bonus completion booked. On Cash flow front, OCF was little weak at Rs1.53Bn (FY23) due to increase in working capital as Sales to working capital stands at 30% in FY23 v/s 22% in FY22. Though in the earnings call, PNC mentioned receivable has reduced from 99 days in FY23 to 77 days as on May-23.
- Guidance on asset monetization:** Currently PNC has HAM portfolio of 22 projects with order value of Rs297bn. Project monetization for 12 assets (7 are operational and 5 are to be operational in FY24) is under evaluation. PNC has in total has invested equity of Rs12.5bn in HAM assets. And to monetized it has signed for services of a consultant to hunt for buyer.

TP **Rs432**
CMP **Rs315**

 Potential upside/downside **+37%**

 Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	11.7	11.1	31.1
Rel to Sensex	8.7	5.6	17.3

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	28	32
Consensus	25	28
% difference	12.0	13.9

Key Stock Data

Bloomberg/Reuters	PNCL IN / PNCL.BO
Sector	Construction
Shares o/s (mn)	257
Market cap. (Rs mn)	80,912
3-m daily avg Trd value (Rs mn)	10.3
52-week high / low	Rs355 / 219
Sensex / Nifty	62,502 / 18,499

Shareholding Pattern (%)

Promoters	56.1
FII	9.5
DII	29.4
Public	5.0

Financial snapshot

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	49,254	63,055	70,608	81,515	92,741
Change (yoy, %)	1	28	12	15	14
EBITDA	6,766	7,872	9,539	11,168	12,335
Change (yoy, %)	(11)	16	21	17	10
EBITDA Margin(%)	13.7	12.5	13.5	13.7	13.3
Adj.PAT	3,619	4,478	6,115	7,204	8,196
EPS (Rs)	14	17	24	28	32
Change (yoy, %)	(21)	24	37	18	14
PE(x)	22	18	13	11	10
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	11	10	9	7	6
RoE (%)	13	14	17	17	16
RoCE (%)	16	16	18	19	18

Source: IDBI Capital Research

Conference call takeaways:

- Company revenue growth guidance is 15% YoY for FY24E, of which JMM order to contribute 25% to revenue. Margin guidance for FY24E is maintained at 13.3-13.5%; similar to FY23 levels.
- Company expects Order book inflow of Rs100-120Bn, in which 70% of orders constitutes from HAM & EPC, rest 30% from other sectors.
- Equity requirement in HAM is Rs24bn (excluding new HAM project) and invested till date is Rs12.5bn and remaining is to be invested in the next two years. Year wise Rs5.4bn in FY24, Rs4.6bn FY25.
- Capex for FY24 is expected at Rs1-1.25Bn.
- Company has diversified in sector other than roads and has 33% of order from irrigation and water, additionally company has also entered in Railway sector in Haryana for lying of New BG Double Railway Line.
- Project monetization for 12 asset (7 are operational and 5 are to be operational in FY24) is under evaluation and expect to undertake some project in FY24. Also signed for services of a consultant to hunt for buyer.
- Employee cost has gone down for Q4FY23 as executed JMM order, where labour cost is high and not getting captured in employee cost.
- Receivable days have reduced from 99 days in FY23 to 77 days as on May-23. As company has received debtors in Q1FY24. Segment wise as on FY23 debtors were Rs10.8bn HAM, Rs 136cr EPC , Rs 3.75bn JMM.
- Q4FY23 Mobilization advance/ Retention money/ unbilled revenue/ HAM debtors stood at Rs3.2bn/ Rs1.3bn/ Rs0.5bn/ Rs10.7bn.
- Currently PNC has HAM portfolio of 22 project and with order value of Rs297bn.
- Debt in the books consisted of Borrowings of Rs3.3Bn & Unsecured loans of Rs1.3Bn which is still outstanding.

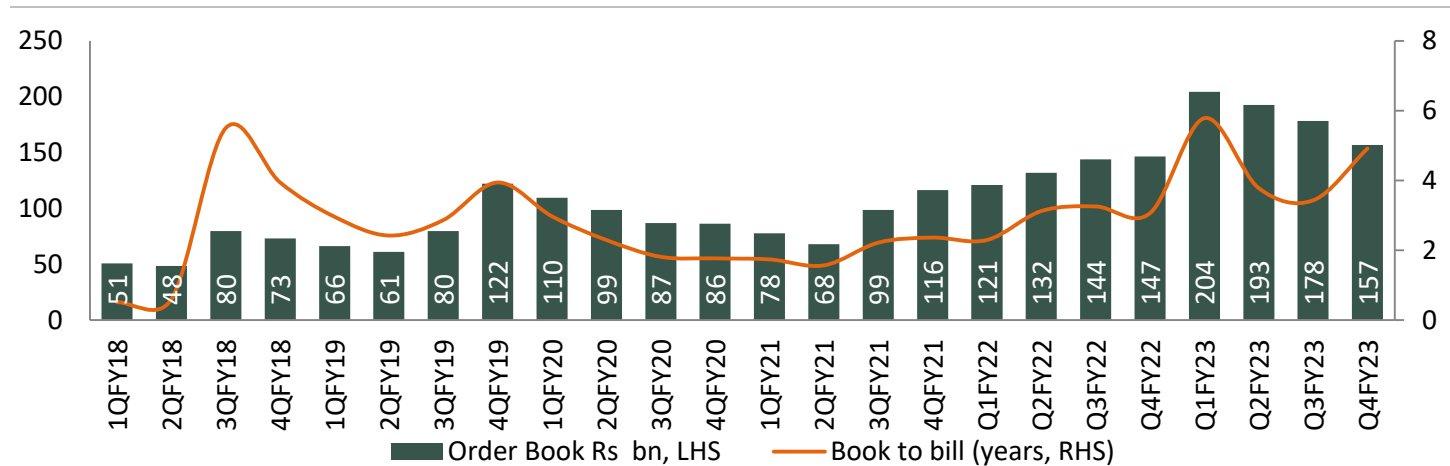
Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q4FY23	Q4FY22	YoY Chg (%)	Q3FY23	QoQ Chg (%)
Net Sales	21,146	19,173	10	16,270	30
EBITDA	2,810	2,247	25	2,081	35
<i>EBITDA margin (%)</i>	<i>13.3</i>	<i>11.7</i>	<i>157 bps</i>	<i>12.8</i>	<i>50 bps</i>
Other income	105	85	24	98	8
PBIDT	2,915	2,332	25	2,178	34
Depreciation	279	321	-13	278	0
Interest	147	170	-14	162	-9
Exceptional items	-	-	NA	-	NA
Adj. pre-tax profit	2,490	1,841	35	1,739	43
Tax	645	459	41	445	45
Reported PAT	1,845	1,382	33	1,294	43
Adj PAT	1,845	1,382	33	1,294	43

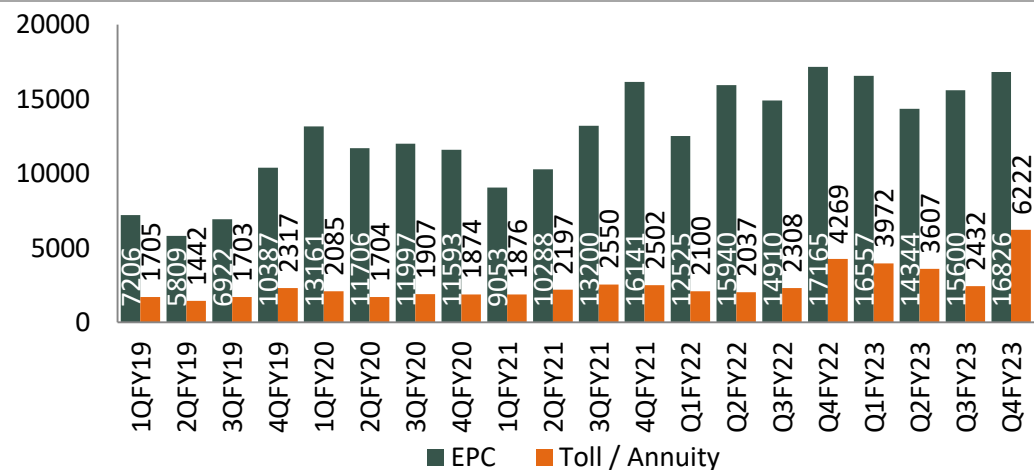
Source: Company

Exhibit 2: Order-book trajectory



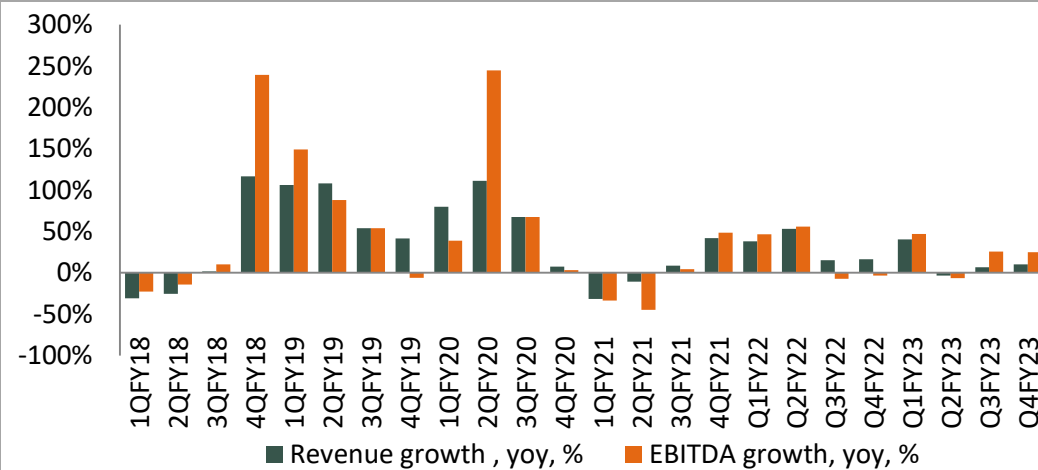
Source: Company

Exhibit 3: Consolidated revenue Breakup: 73% EPC, 27% Toll/ Annuity



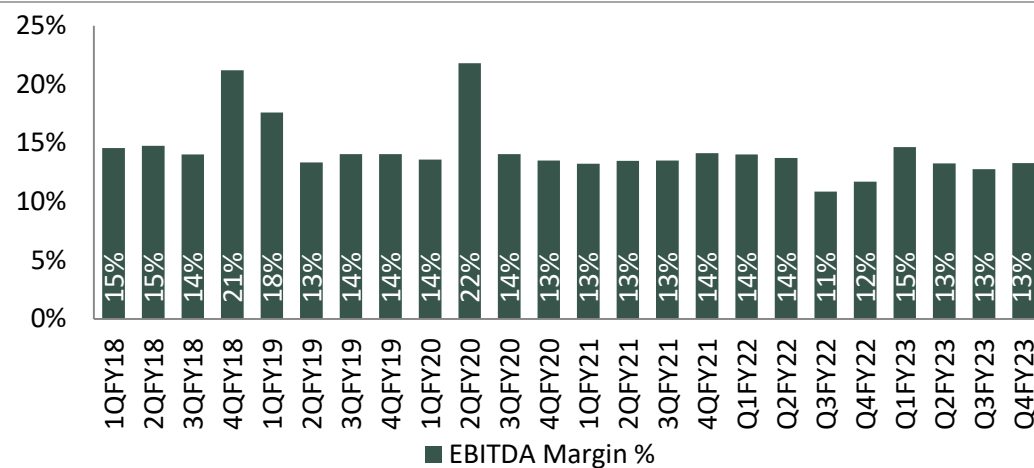
Source : Company

Exhibit 4: Execution up 10% YoY; EBITDA up 25% YoY



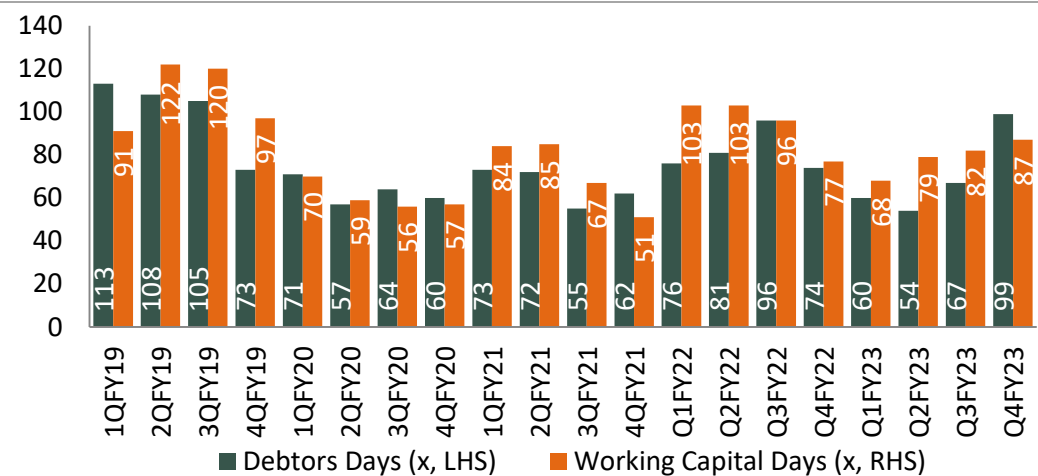
Source : Company

Exhibit 5: EBITDA margin stable



Source : Company

Exhibit 6: Q4FY22 Working Capital at 87 days, increased QoQ



Source: Company

Exhibit 7: SOTP based TP

		Earlier	Revised
Standalone PAT FY25E		7,854	8,196
Target Multiple (x)		12	12
Equity value construction (Rs mn)		94,245	98,351
Equity value construction (Rs/sh)	A	367	383
FY23 BV Investment Rs mn		8,722	12,500
FY23 BV Investment Rs /sh	B	34	49
Target mkt Cap (Rs)		1,02,967	1,10,851
Target Price (Rs)	A + B	401	432
Upside			37%

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	48,779	49,254	63,055	70,608	81,515	92,741
<i>Change (yoy, %)</i>	57.5	1.0	28.0	12.0	15.4	13.8
Operating expenses	(41,136)	(42,488)	(55,183)	(61,070)	(70,348)	(80,407)
EBITDA	7,643	6,766	7,872	9,539	11,168	12,335
<i>Change (yoy, %)</i>	67.1	-11.5	16.4	21.2	17.1	10.4
<i>Margin (%)</i>	15.7	13.7	12.5	13.5	13.7	13.3
Depreciation	(1,264)	(1,124)	(1,299)	(1,100)	(1,130)	(1,219)
EBIT	6,379	5,642	6,573	8,439	10,038	11,115
Interest paid	(1,144)	(771)	(801)	(638)	(758)	(574)
Other income	885	714	542	383	362	427
Pre-tax profit	6,120	5,585	6,314	8,184	9,641	10,969
Tax	(1,517)	(1,966)	(1,836)	(2,069)	(2,437)	(2,773)
<i>Effective tax rate (%)</i>	24.8	35.2	29.1	25.3	25.3	25.3
Minority Interest	-	-	-	-	-	-
Net profit	4,603	3,619	4,478	6,115	7,204	8,196
Exceptional items	-	-	-	-	-	-
Adjusted net profit	4,603	3,619	4,478	6,115	7,204	8,196
<i>Change (yoy, %)</i>	41.7	(21.4)	23.7	36.5	17.8	13.8
EPS	18	14	17	24	28	32
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	FY23	FY24E	FY25E
Shareholders' funds	25,466	29,085	33,402	39,416	46,491	54,559
Share capital	513	513	513	513	513	513
Reserves & surplus	24,953	28,572	32,889	38,903	45,978	54,046
Total Debt	2,238	4,029	2,299	4,601	3,601	2,601
Other liabilities	6,463	4,207	7,219	6,063	6,984	7,982
Curr Liab & prov	9,935	11,248	10,101	10,625	10,926	12,237
Current liabilities	9,827	11,010	9,893	10,279	10,552	11,829
Provisions	108	238	208	346	374	407
Total liabilities	18,637	19,484	19,619	21,289	21,511	22,820
Total equity & liabilities	44,103	48,569	53,021	60,705	68,003	77,379
Net fixed assets	5,880	6,592	5,894	5,345	5,466	5,247
Investments	8,495	8,653	9,517	16,906	22,306	26,906
Other non-curr assets	5,429	6,113	8,240	3,612	3,781	3,958
Current assets	24,298	27,211	29,370	34,841	36,450	41,269
Inventories	2,673	3,536	4,808	7,644	8,805	10,064
Sundry Debtors	8,035	8,392	12,728	19,055	17,866	20,327
Cash and Bank	6,822	6,877	4,068	2,928	3,976	4,468
Marketable Securities	578	805	1,209	806	806	806
Loans and advances	3,625	3,638	3,064	884	928	974
Total assets	44,103	48,569	53,021	60,705	68,003	77,379

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	6,120	5,585	6,314	8,184	9,641	10,969
Depreciation	1,264	1,124	1,299	1,100	1,130	1,219
Tax paid	(1,612)	(1,998)	(1,751)	(2,166)	(2,437)	(2,773)
Chg in working capital	1,823	(2,261)	(6,575)	(9,348)	90	(2,636)
Other operating activities	531	282	1,592	697	397	146
Cash flow from operations (a)	8,126	2,732	878	(1,533)	8,821	6,925
Capital expenditure	(909)	(1,820)	(546)	(552)	(1,250)	(1,000)
Chg in investments	(1,004)	(961)	(1,943)	67	(5,400)	(4,600)
Other investing activities	(394)	29	1,229	(650)	193	250
Cash flow from investing (b)	(2,307)	(2,751)	(1,260)	(1,135)	(6,457)	(5,350)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(523)	693	(1,835)	(830)	(429)	(381)
Dividend (incl. tax)	(309)	-	(128)	3,043	(128)	(128)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(683)	(619)	(464)	(686)	(758)	(574)
Cash flow from financing (c)	(1,516)	74	(2,427)	1,528	(1,316)	(1,083)
Net chg in cash (a+b+c)	4,304	55	(2,809)	(1,141)	1,048	492

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	99	113	130	154	181	213
Adj EPS (Rs)	17.9	14.1	17.5	23.8	28.1	31.9
Adj EPS growth (%)	41.7	-21.4	23.7	36.5	17.8	13.8
EBITDA margin (%)	15.7	13.7	12.5	13.5	13.7	13.3
Pre-tax margin (%)	12.5	11.3	10.0	11.6	11.8	11.8
Net Debt/Equity (x)	-0.20	-0.13	-0.09	0.02	-0.03	-0.05
ROCE (%)	20.6	15.8	16.4	18.1	18.7	18.2
ROE (%)	19.7	13.3	14.3	16.8	16.8	16.2

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	1.6	1.5	1.4
Net margin (%)	9.4	7.3	7.1	8.7	8.8	8.8

Working Capital & Liquidity ratio

Inventory days	20	26	28	40	39	40
Receivable days	60	62	74	99	80	80
Payable days	41	62	34	41	35	35

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	17.6	22.3	18.0	13.2	11.2	9.9
Price/Book value (x)	3.2	2.8	2.4	2.1	1.7	1.5
EV/Net sales (x)	1.6	1.6	1.2	1.2	1.0	0.8
EV/EBITDA (x)	9.9	11.4	9.9	8.6	7.1	6.3
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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