

PNC Infratech

BUY

Strong guidance for FY22E

Summary

PNC Infratech (PNCL) Q4FY21 operationally (EBITDA) was in-line with our and consensus estimate. For FY21 execution (revenue) was flat YoY and PNC has guided for revenue to increase by 20% YoY. PNC has strengthened its in-house execution and despite pandemic it has increased its employee strength by 15% to 9,599 in FY21. On the ground execution was not impacted from Covid 2nd wave and PNC guided toll revenue to increase from July 21. Ordering was strong in the sector and PNC is L1 in orders of Rs50bn. Firm Order book at Rs116bn equals 2x TTM Revenue. We maintain BUY rating with unchanged TP and EPS. In SOTP based TP, we value EPC/construction business at 12x FY23E EPS and investment in various road assets at FY21 BV. Stock trades at PER of 10x FY23E EPS which is 20% discount to its average since IPO in FY16.

Key Highlights and Investment Rationale

- Q4FY21 Snapshot:** PNCL revenue increased by +42% YoY and run rate was higher than 9MFY21 revenue which declined by 12% YoY. EBITDA was up 49% YoY with EBITDA margin of 14.1% vs 13.5% YoY. PAT stood at Rs1.3bn (up 70% YoY) led by EBITDA increase and lower depreciation. For FY21, revenue was flat YoY but EBITDA declined by 12% YoY due to lower EBITDA margin at 13.7% (-200 bps YoY).
- Order inflow and revenue visibility strong:** PNC received order inflow of Rs77bn in FY21 and has guided for incremental orders of Rs70-80bn in FY22. Order book at Rs116bn equals 2x TTM Revenue and additionally company is L1 in orders of Rs50bn. In the order book, Roads EPC/ HAM/ Water projects contributes 27%/ 45%/ 28%.
- Balance sheet remains lean:** Gross Debt in standalone book is at Rs4bn and has Rs8bn bank/liquid balance. And at consolidated level, total Debt is at Rs42bn and Net Debt to Equity at 1.37x. PNC's equity requirement for all HAM projects is at Rs14.6bn, out of which company has already invested Rs6bn till FY21 and the balance to get invested from internal accruals over the next 3 years.

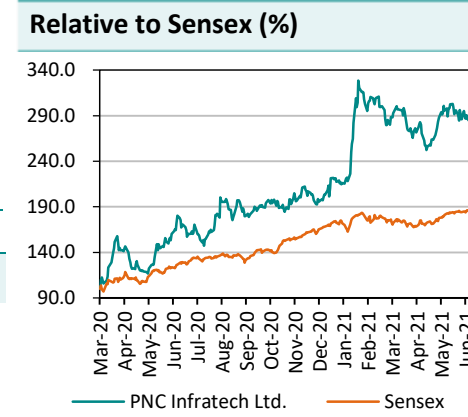
TP	Rs331
CMP	Rs246
Potential upside / downside	+35%
Previous Rating	BUY

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	20.4	25.2
Consensus	19.0	22.3
% difference	7.4	13.2

Shareholding Pattern (%)	
Promoters	56.1
FII	10.8
DII	27.6
Public	5.5

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(4.1)	(3.2)	76.7
Rel to Sensex	(6.6)	(10.8)	26.8

Key Stock Data	
Bloomberg/Reuters	PNCL IN / PNCL.BO
Sector	Construction
Shares o/s (mn)	257
Market cap. (Rs mn)	63,083
Market cap. (US\$ mn)	850
3-m daily avg Trd value (Rs mn)	139.1
52-week high / low	Rs291 / 127
Sensex / Nifty	52,736 / 15,815



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	30,969	48,779	49,254	60,155	72,187
EBITDA	4,573	7,643	6,728	8,121	9,745
EBITDA (%)	14.8	15.7	13.7	13.5	13.5
Adj. PAT	3,249	4,603	3,619	5,224	6,461
EPS (Rs)	12.7	17.9	14.1	20.4	25.2
Adj. EPS Growth (%)	29.4	41.7	(21.4)	44.3	23.7
PE (x)	19.3	13.7	17.4	12.0	9.7
Adj. Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	13.7	7.5	8.6	7.2	5.8
RoE (%)	16.6	19.7	13.3	16.5	17.3
RoCE (%)	15.0	20.6	16.0	18.2	19.5

Source: Company; IDBI Capital Research

Conference call takeaways:

- Labour availability was not much affected in Q1FY22 and execution has been steady.
- In H2FY21 road traffic witnessed significant improvement led by pickup in the movement of commercial vehicles. Toll revenue is expected to rise from July' 21 onwards considering the current trend of covid decline.
- Order book stood at Rs116bn providing a robust visibility over next 2-3 years. Out of the total order book, Roads EPC/ HAM/ Water & Canal projects contributes 27%/ 45%/ 28%. In the order book water / canal projects stood at Rs2.8bn/ Rs10bn.
- In FY21 company has received orders worth Rs77bn. On Jal Jeevan Mission front, out of 3 projects company has already received one appointed date in Q4FY21 and 2 are under-process and are expected within 2-3 months.
- PNCL has submitted bids for 11 EPC projects / 3HAM projects worth Rs45bn/ Rs35bn. And company is expecting ~Rs70bn-80bn projects in FY22.
- On Standalone basis, Net worth stood at Rs29bn. Total Cash and bank balance stood at Rs8bn. Net cash stood at Rs4bn. Debt to Equity at 0.14 x.
- On Consolidated basis, Total Debt at Rs42bn. Total Cash and Bank balance including Current Investments stood at Rs14bn. Net Debt to Equity at 1.37 times.
- In FY21 Company has incurred capex of Rs1.2bn with Gross Block at Rs12.7bn. Going ahead, company expects capex to be around Rs1.25bn for FY22.
- Equity investments required for all HAM projects stood at Rs14.6bn, out of which company has already invested Rs6bn till FY21 and the balance to get invested in 2-3 years. Company expects to invest Rs3.5bn/ Rs3.2bn/ Rs3bn for FY22/ FY23/ FY24.
- Giving guidance, PNCL expects revenue to grow by 20% for FY22 vs FY21 considering there is no further effect of covid. And EBITDA margin is expected to be ~13.5-14%.
- Q4Y21 Net Working cycle stood at 51 days vs 67 days in Q4FY20.
- Tax rate for FY22 is expected to be at 22.5%
- Fund based limit stood at Rs10bn. Non fund based at Rs7.5bn with Rs2.8bn been utilized.

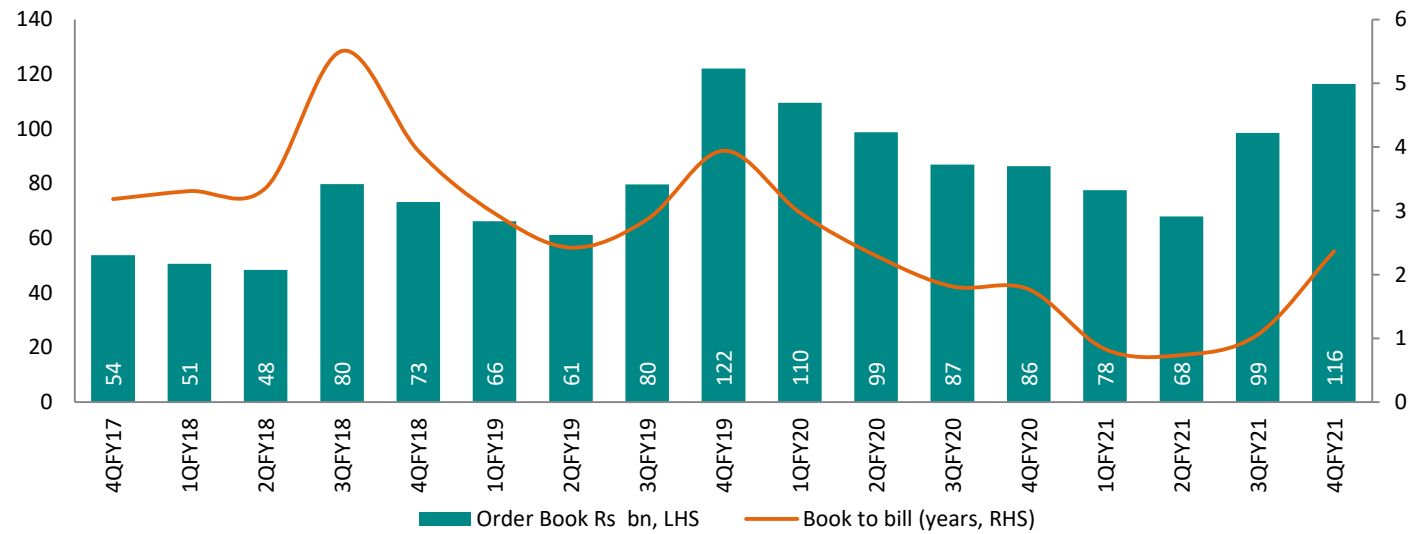
Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q4FY21	Q4FY20	YoY Chg (%)	Q3FY21	QoQ Chg (%)
Net Sales	16,443	11,579	42.0	13,224	24.3
EBIDTA	2,324	1,563	48.7	1,785	30.2
<i>EBITDA margin (%)</i>	<i>14.1</i>	<i>13.5</i>		<i>13.5</i>	
Other income	171	159	7.0	243	-29.6
PBIDT	2,494	1,723	44.8	2,028	23.0
Depreciation	300	324	-7.3	282	6.5
Interest	148	316	-53.3	153	-3.1
Pre-tax profit	2,047	1,083	89.1	1,594	28.4
Tax	753	322	133.9	562	34.0
Adjusted net profit	1,294	761	70.1	1,032	25.4

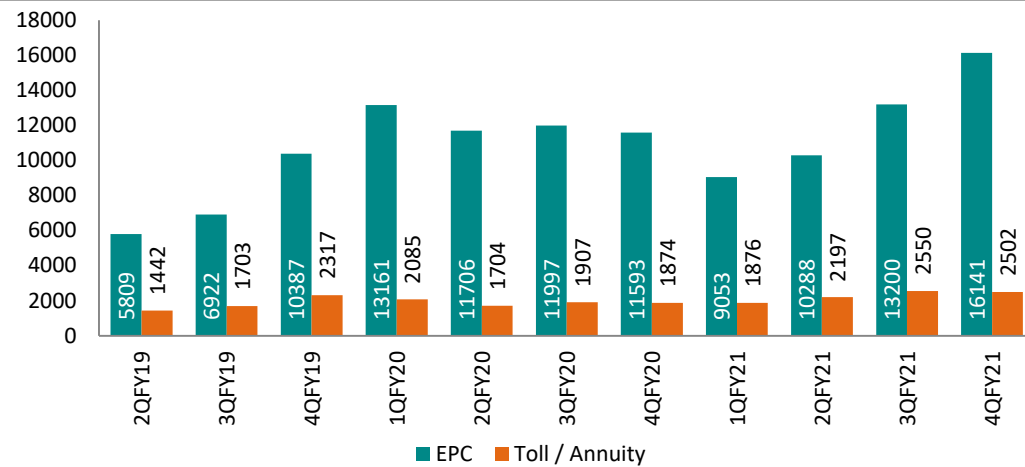
Source: Company

Exhibit 2: Order-book trajectory



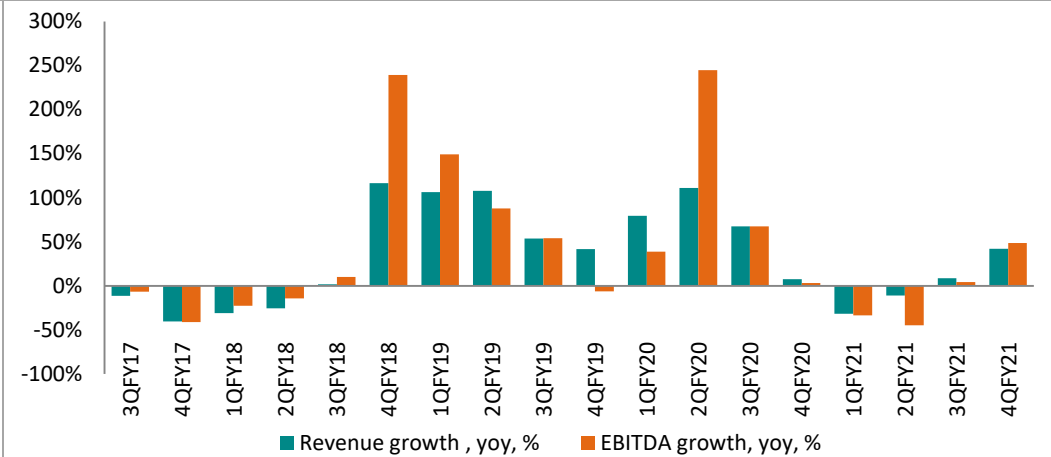
Source: Company

Exhibit 3: Revenue Breakup, EPC at 84% has increased over the years

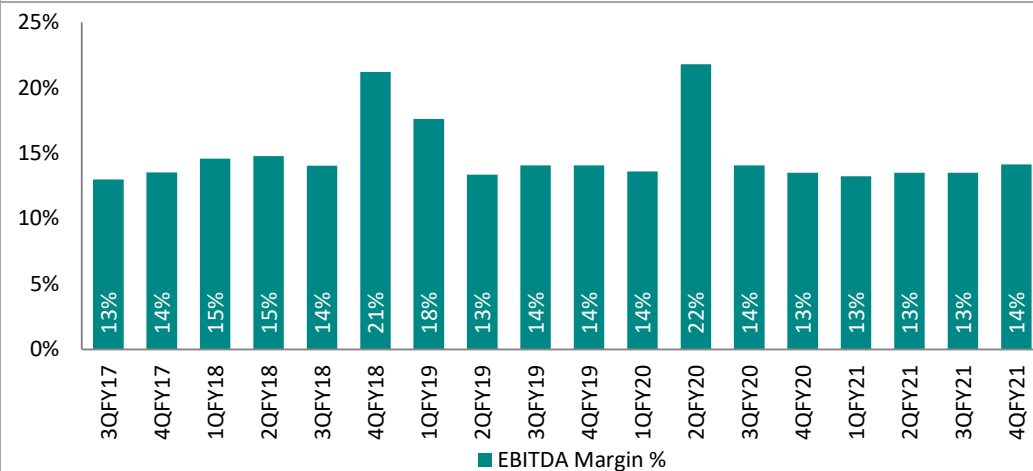


Source : Company

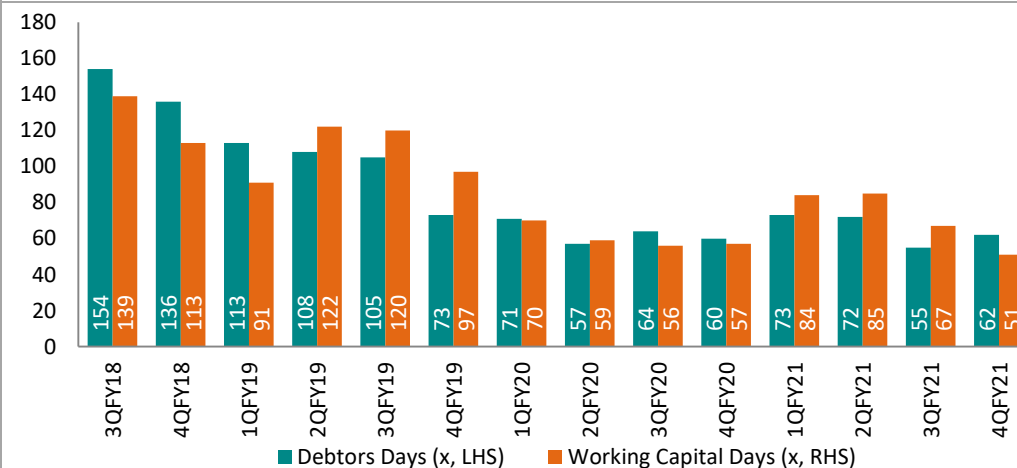
Exhibit 4: Execution lumpy in nature



Source : Company

Exhibit 5: EBITDA margin stable (%)


Source : Company

Exhibit 6: Q4FY21 Net Working Capital at 51days, lowered QoQ


Source Company

Exhibit 7: SOTP based TP

	FY23E
PAT Rs mn	6,461
Target Multiple (x)	12
Equity value (Rs mn)	77,530
No of shares (mn)	257
Value per share (Rs)	302
FY20 BV of Investment Rs/sh	29
Target Price (Rs/sh)	331

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	48,779	49,254	60,155	72,187
<i>growth (%)</i>	57.5	1.0	22.1	20.0
Operating expenses	(41,136)	(42,527)	(52,035)	(62,441)
EBITDA	7,643	6,728	8,121	9,745
<i>growth (%)</i>	67.1	(12.0)	20.7	20.0
Depreciation	(1,264)	(1,124)	(1,180)	(1,239)
EBIT	6,379	5,604	6,941	8,506
Interest paid	(1,144)	(771)	(840)	(800)
Other income	885	752	865	908
Pre-tax profit	6,120	5,585	6,966	8,614
Tax	(1,517)	(1,966)	(1,741)	(2,154)
<i>Effective tax rate (%)</i>	24.8	35.2	25.0	25.0
Minority Interest	-	-	-	-
Net profit	4,603	3,619	5,224	6,461
Exceptional items	-	-	-	-
Adjusted net profit	4,603	3,619	5,224	6,461
<i>growth (%)</i>	41.7	(21.4)	44.3	23.7
<i>Shares o/s (mn nos)</i>	257	257	257	257

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	6,120	5,585	6,966	8,614
Depreciation	1,264	1,124	1,180	1,239
Tax paid	(1,612)	(1,998)	(1,741)	(2,154)
Chg in working capital	1,823	(2,261)	(2,422)	(1,799)
Other operating activities	531	282	(25)	(108)
Cash flow from operations (a)	8,126	2,732	3,957	5,792
Capital expenditure	(909)	(1,820)	(750)	(750)
Chg in investments	(1,004)	(961)	(3,500)	(3,190)
Other investing activities	(394)	29	571	599
Cash flow from investing (b)	(2,307)	(2,751)	(3,679)	(3,341)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(523)	693	(372)	(366)
Dividend (incl. tax)	(309)	-	(128)	(128)
Chg in minorities	-	-	-	-
Other financing activities	(683)	(619)	(840)	(800)
Cash flow from financing (c)	(1,516)	74	(1,340)	(1,294)
Net chg in cash (a+b+c)	4,304	55	(1,063)	1,157

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	5,880	6,592	6,162	5,673
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	29,469	34,602
Inventories	2,673	3,536	4,326	5,192
Sundry Debtors	8,035	8,392	9,889	11,866
Cash and Bank	6,822	6,877	5,789	6,921
Marketable Securities	578	805	805	805
Loans and advances	3,625	3,638	3,820	4,011
Total assets	44,102	48,569	54,190	62,334
Shareholders' funds	25,466	29,085	34,155	40,462
Share capital	513	513	513	513
Reserves & surplus	24,953	28,572	33,642	39,949
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	13,570	15,684
Current liabilities	9,827	12,492	13,301	15,381
Provisions	108	238	268	304
Total liabilities	18,637	19,484	20,035	21,872
Total equity & liabilities	44,103	48,569	54,190	62,334
Book Value (Rs)	99	113	133	158

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	17.9	14.1	20.4	25.2
Adj. EPS growth (%)	41.7	(21.4)	44.3	23.7
EBITDA margin (%)	15.7	13.7	13.5	13.5
Pre-tax margin (%)	12.5	11.3	11.6	11.9
ROE (%)	19.7	13.3	16.5	17.3
ROCE (%)	20.6	16.0	18.2	19.5
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	9.0
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: March	FY20	FY21	FY22E	FY23E
P/E (x)	13.7	17.4	12.0	9.7
Price / Book value (x)	2.5	2.2	1.8	1.6
PCE (x)	10.7	13.3	9.8	8.2
EV / Net sales (x)	1.2	1.2	1.0	0.8
EV / EBITDA (x)	7.5	8.6	7.2	5.8
Dividend Yield (%)	0.2	0.2	0.2	0.2



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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