

INDUSTRY	INFRASTRUCTURE		
CMP (as on 18 Aug 2017)	Rs 145		
Target Price	Rs 168		
Nifty	9,837		
Sensex	31,525		
KEY STOCK DATA			
Bloomberg	PNCL IN		
No. of Shares (mn)	257		
MCap (Rs bn) / (\$ mn)	37/582		
6m avg traded value (Rs mn)	89		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 169/93		
	3M	6M	12M
Absolute (%)	(1.5)	39.1	24.9
Relative (%)	(5.1)	28.3	12.8
SHAREHOLDING PATTERN (%)			
Promoters	56.07		
FIIs & Local MFs	22.13		
FPIs	5.35		
Public & Others	16.45		
Source : BSE			

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Geared up

PNC Infratech (PNC) delivered inline 1QFY18 performance. Despite Rs 86.5bn order backlog (4.2x - FY18E standalone revenue), Rs 16bn of projects are awaiting 'Appointed Date' and Rs 36bn of HAM orders are undergoing financial closure. The revenue is weak on back of only 40% (Rs 34.5bn) order backlog being under execution. Revenue should materially pickup from 4QFY18E.

Two EPC projects - Nagina Kashipur (Rs 11.6bn), Bhojpur-Buxar (Rs 4.8bn) & three HAM projects (combined project cost Rs 36bn) are expected to contribute revenue from Dec-17E. PNC's balance sheet remains healthy with standalone net d/e of 0.09x. Debtors remain weak at 140days. With debtors recovery from UPEIDA & HAM, debtors should come down during 2HFY18E.

Bid pipeline is strong with ordering expected to improve from 3QFY18E. Maintain BUY, TP Rs 168/sh.

Financial Summary (Standalone)

Year Ending March (Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY16	FY17	FY18E	FY19E
Net Sales	3,515	5,150	(31.8)	3,506	0.3	20,142	16,891	20,535	28,568
EBITDA	468	671	(30.3)	474	(1.4)	2,696	2,210	2,698	3,804
APAT	246	640	(61.6)	337	(27.2)	1,536	1,521	1,368	1,922
Diluted EPS (Rs)	1.0	2.5	(61.6)	1.3	(27.2)	6.0	5.9	5.3	7.5
P/E (x)						24.2	24.5	27.2	19.4
EV / EBITDA (x)						13.5	17.4	14.5	10.6
RoE (%)						14.8	10.6	8.7	11.2

Source: Company, HDFC sec Inst Research

Highlights of the Quarter

- Earnings to bottom out from 4QFY18E:** PNC earnings will recover sharply from 4QFY18E as entire order backlog of Rs 86.5bn will start contributing to revenues. We expect soft 2QFY18E with Rs 3.5bn revenue booking. Quarterly run rate will improve with FC of 3 HAM project (Rs 36bn) and two EPC project moving into execution from Dec-18E.
- Pending HAM equity requirement of Rs 4bn, BOT value Rs 33.4/sh (1.5x P/BV):** During 1QFY18, the toll collection dropped 7% YoY to Rs 1,126mn, largely on back of overloading ban. Aligarh Ghaziabad project collection declined to Rs 5.2mn/day vs Rs 5.8mn/day QoQ. With road traffic normalizing post new CVs hitting road, overloading recovery will improve collection. HAM equity to be invested over 3yrs.
- Near-term outlook:** Delay in projects appointed date key headwind. Advice **BUY on dip.**

Adjusted for Rs 52mn of one time price variation claim in Dholpur Morena project, PNC revenue came in 5.5% ahead of our estimates

EBITDA margins expanded 28bps YoY to 13.3% resulting in EBIDTA of Rs 46.8cr, 6.3% ahead of estimate

Adjusted PAT (post deducting one time Rs 52mn variation claims) came at Rs 246mn, 5.9% below estimate. Higher interest cost (increase in debt) & depreciation (FY17 capex) and lower other income resulted in 61.6% YoY de-growth in net profit

There was no new order inflow during 1QFY18

Order backlog is Rs 50.6bn ex three HAM orders worth Rs 36bn. Total order book including HAM projects is Rs 86.5bn

PNC has standalone gross /net debt of Rs 1.7/1.4bn and net D/E of 0.09x

Standalone Quarterly Financial

Particulars (Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net Sales	3,515	5,150	(31.8)	3,506	0.3
Material Expenses	(2,384)	(3,754)	(36.5)	(2,332)	2.2
Employee Expenses	(264)	(243)	8.7	(247)	6.8
Other Operating Expenses	(399)	(483)	(17.3)	(452)	(11.6)
EBITDA	468	671	(30.3)	474	(1.4)
Depreciation	(175)	(121)	44.8	(140)	24.8
EBIT	293	550	(46.8)	334	(12.4)
Other Income	55	174	(68.5)	106	(48.1)
Interest Cost	(80)	(22)	269.9	(84)	(4.3)
PBT	268	703	(61.9)	356	(24.9)
Tax	(21)	(63)	(65.9)	(19)	12.8
OCI/EO Items	51	-	-	-	-
Reported PAT	298	640	(53.5)	337	(11.8)
EO Items	(52)	-	-	-	-
APAT	246	640	(61.6)	337	(27.2)

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	1QFY18	1QFY17	YoY (bps)	4QFY17	QoQ (bps)
Material Expenses % Net Sales	67.8	72.9	(506)	66.5	129
Employee Expenses % Net Sales	7.5	4.7	279	7.1	46
Other Ope Expenses % Net Sales	11.4	9.4	198	12.9	(153)
EBITDA Margin (%)	13.3	13.0	28	13.5	(22)
Tax Rate (%)	8.0	8.9	(94)	5.3	266
APAT Margin (%)	7.0	12.4	(544)	9.6	(263)

Source: Company, HDFC sec Inst Research

We expect PNC's order book to multiply 1.5x over FY17-19E

Roads EPC and HAM will be key drivers for order-book growth

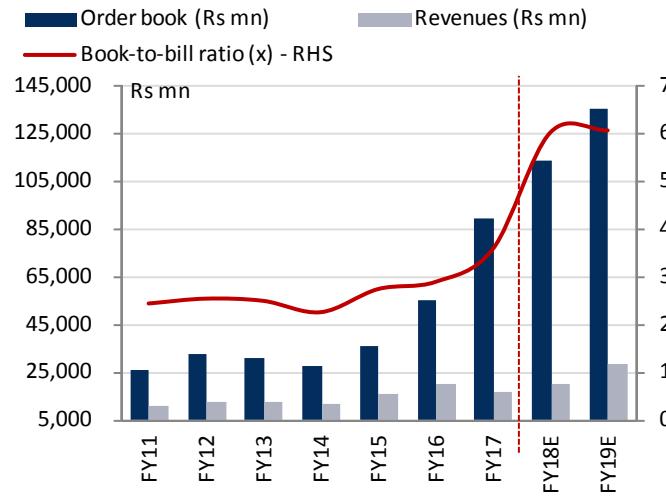
PNC is targeting Rs 40-50bn order inflow in FY18E

EBITDA and PAT margins to remain at 13-13.3% and 6-6.5% over FY17-19E

Expect PNC to add debt over FY17-19E to fund capex and WC needs. FY19E-end net D/E ratio may inch to 0.2x

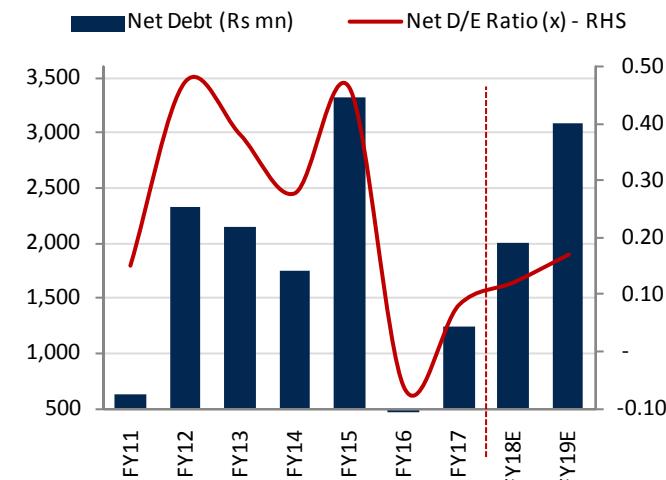
Expect net working capital cycle of 124 days in FY19E and cash flow. This shall be on back of Rs 1.3bn debtors recovery from the UPEIDA and high share of NHAI order with better payment terms and advance

Order Book To Multiply 1.5x Over FY17-19E



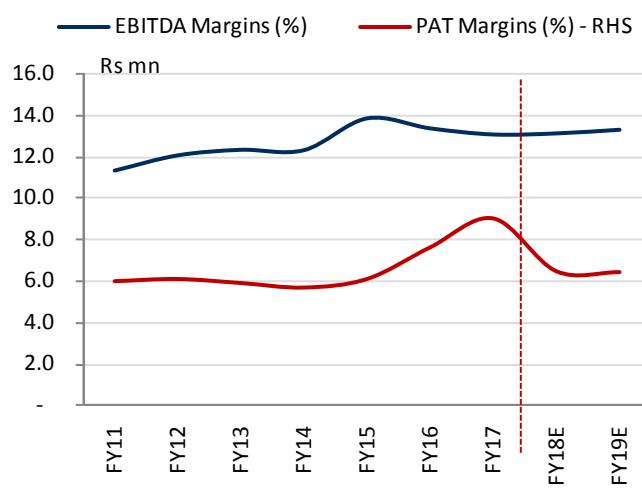
Source: Company, HDFC sec Inst Research

Expect FY19E Net D/E Ratio Of 0.2x



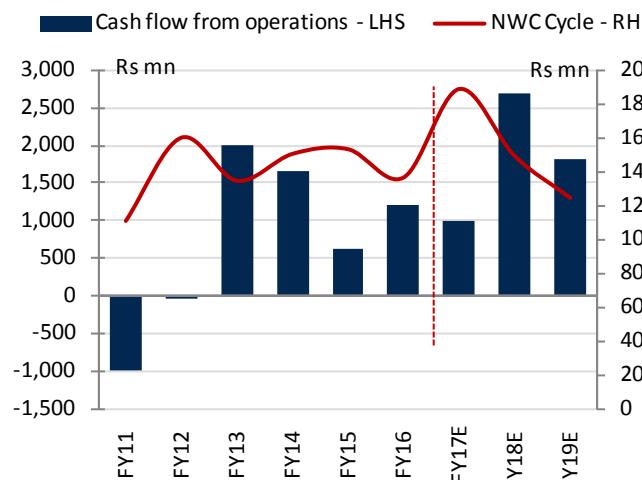
Source: Company, HDFC sec Inst Research

EBITDA Margins To Remains Stable At 13%



Source: Company, HDFC sec Inst Research

Expect FY19E NWC Cycle Of 124 days



Source: Company, HDFC sec Inst Research

The Aligarh-Ghaziabad BOT has achieved full COD in 3QFY17, resulting in 20% increase in toll. The toll collection stood at Rs 5.2mn vs Rs 5.8mn in 4QFY17

This is ~43% lower than our expectation of Rs 9mn/day collections

The total toll revenue during 1QFY18 stood at Rs 1,126mn vs Rs 1,215mn. The 7% drop is on account of ban on overloading. The collection will improve as new CV's replace the overloading PCU loss

There is no pending equity to be invested in the completed projects. Total equity invested is Rs 5.8bn (PNC share) including Rs 1.2bn of loss funding to Aligarh-Ghaziabad project

Total pending equity requirement of the HAM projects is Rs 4bn

PNC's total asset portfolio is valued at Rs 33.4/sh

Strong BOT portfolio – Value BOTs at Rs 33.4/sh (1.5x P/BV)

- **Aligarh-Ghaziabad project** has been one of the key pain points in PNC's BOT portfolio. The toll collection has declined from Rs 5.8mn/day in 4QFY17 to Rs 5.2mn/day. There has been ban on overloading and hence the fall. As overloading gets distributed through new CV's, toll collection may recover.
- PNC has issued Rs 1.1bn of warrants as loss funding for Aligarh-Ghaziabad project in FY17 and further Rs 300mn of loss funding is required to meet financial liabilities. The SPV is looking refinance the project and PNC expects to recover the warrant monies during 2HFY18E. The rate is being negotiated lower.
- **HAM project equity requirement Rs 4bn over next 3yrs:** PNC has received in principle approval for financial closure of the Jhansi Package 1 and Chitradurga-Davanagere HAM projects. Jhansi Package 2, FC is expected by Aug-17 end. Work on these three HAM project is expected to start by 3QFY18E. Land acquisition is in advance stages.
- **Narela Project** – PNC received Rs 430mn (50%) annuity arbitration in favour, balance Rs 430mn by Oct-17E. Earlier DSIIDC (Delhi State Industrial and Infrastructure Ltd) did not make annuity payment to PNC post COD in Oct-13. Total receivable due of Rs860mn. Cash to be realized in FY18E post the balance arbitration award
- **We have valued PNC's BOT portfolio at Rs 33.4/sh (1.5x P/BV).**

Project	PNC Stake (%)	WACC (%)	PNC Equity Invested (INR mn)	Project Value (Rs mn)	NPV (PNC Share) INR mn	Per share value (Rs/sh)	Implied P/B (x)
Bareilly-Almora-Bagheshwar	100.0	13.5	750	567	567	2.2	0.8
Kanpur-Kabrai	100.0	13.5	675	3,038	3,038	11.8	4.5
Gwalior Bhind	100.0	13.5	780	1,728	1,728	6.7	2.2
Aligarh-Ghaziabad	35.0	13.5	1,860	(1,796)	(629)	(2.5)	(0.3)
Raebareli-Jaunpur	100.0	13.5	1,395	768	768	3.0	0.6
Narela Industrial Estate	100.0	13.5	350	971	971	3.8	2.8
Kanpur-Ayodhya	100.0	13.5	-	2,131	2,131	8.3	-
Total			5,810	7,407	8,574	33.4	1.5

Source: Company, HDFC sec Inst Research

We expect 22.9% FY17-19E order backlog CAGR

FY17-19E revenue CAGR 30.1%, EBIDTA CAGR 31.2%

EBIDTA margins to be maintained in the 13-13.3% range

FY17-19E RPAT CAGR of 4%

FY17-19E APAT CAGR of 12.4%

Key Assumptions And Estimates (Standalone)

Key Assumptions (Rs mn)	FY17E	FY18E	FY19E	Comments
Closing order book	89,800	114,031	135,601	We expect 22.9% FY17-19E order book CAGR on back of strong NHAI & State EPC roads pipeline
Order book growth (%)	62.6	27.0	18.9	
New order booking	49,740	44,766	50,138	
Book to bill ratio	5.3	5.6	4.7	Book to bill ratio to improve on new orders wins
Total Revenue	16,891	20,535	28,568	Strong order book accretion to result in FY17-19E with revenue CAGR of 30.1%. PNC has guided for 25-30% growth in FY18E we have factored 21.6%
Growth (%)	(16.1)	21.6	39.1	
EBIDTA	2,210	2,698	3,804	FY17-19E EBIDTA CAGR of 31.2%
EBIDTA margin (%)	13.1	13.1	13.3	Margins to remain in 13-13.3% range
Depreciation	533	665	770	
Financial Charges	203	351	523	Borrowing cost to grow at 60.5% FY17-19E CAGR to meet working capital demand
Other Income (Including EO Items)	466	359	357	
PBT	1,940	2,041	2,869	FY17-19E PBT CAGR of 21.6%
PBT margin (%)	11.5	9.9	10.0	PBT margins to decline on back of higher finance cost
Tax	(157)	306	602	Continue to avail MAT reversal of Rs 420mn for FY14, FY15 during FY18-19E
Tax rate (%)	(8.1)	15.0	21.0	Tax rate as per PNC guidance
RPAT	2,097	1,735	2,266	FY17-19E RPAT CAGR of 4%
Removing MAT tax savings	(576)	(367)	(344)	We have also factored in 33% tax impact so difference in P&L tax provisioning is factored here to arrive at adjusted PAT at 33% tax rate
APAT	1,521	1,368	1,922	FY17-19E APAT CAGR of 12.4% adjusted for full tax
Net margin (%)	9.0	6.7	6.7	
Gross Block Turnover	3.3	3.1	3.7	Improvement on account of new orders inflow
Debtor days	135	90	85	May improve as NHAI share increase in order book and PNC realizes Rs 1.3bn of UPEIDA debtors on Lucknow Agra expressway
CFO - a	989	2,679	1,804	Higher revenue growth, robust client advance to result in higher positive cash flow from operations
CFI - b	(2,810)	(2,950)	(2,250)	
FCF - a+b	(1,821)	(271)	(446)	
CFF - c	1,185	1,025	151	
Total change in cash - a+b+c	(637)	754	(295)	Net cash position doesn't change debt materially

Source : HDFC sec Inst Research

We value standalone EPC business at Rs 135/share (18x one-year forward Mar-19E EPS)

We value PNC's BOT portfolio at Rs 33.4/share (1.5x invested equity)

We maintain BUY with SOTP-based target price of Rs 168/sh

Outlook and valuation

Target price of Rs 168/sh, implies ~15.8% upside

- We have valued PNC standalone on P/E basis at 18x one-year forward Mar-19E. Our rationale for higher multiple is (1) a robust order book of Rs 86.5bn (4.2x FY18E revenue), (2) A strong balance sheet (1QFY18 standalone net D/E at 0.09x, (3) Well funded BOT portfolio, and (4) high share of NHAI EPC roads in the order book will result in lower working capital demand, as these projects have 10% interest-free client advances.
- Higher-than-estimated order intake may result in further stock re-rating as PNC has (1) a diversified presence in roads and dedicated freight corridor, the biggest beneficiary of government spending, (2) strong execution capability, which provides scope for earning early completion bonus (3-6% of project cost) leading to EBIDTA margin expansion, and (3) likely support from the captive order book in lieu of any contraction in future roads EPC orders.
- While the NHAI pipeline remains strong at about Rs 950bn annually, PNC's home state Uttar Pradesh is coming up with Rs 250bn worth of road projects to be awarded over the next two years. A strong setup in UP provides strong order intake tailwinds for the company.
- We have valued PNC's toll projects using 13.5% discount rate for arriving at NPV of the projects. We value the BOT business at Rs 33.4/sh (1.5x of PNC invested equity). We remain cautious on the traffic pick-up in the Aligarh-Ghaziabad BOT project, as current collections are about 43% lower than estimate.
- **We maintain BUY with SOTP of Rs 168/share. We value the (1) Standalone EPC business at Rs 135/share (18x one-year forward Mar-19E EPS), and (2) BOT projects at Rs 33.4/share.**

SOTP Valuation

Segment	Valuation Methodology	Mar-19E Adjusted PAT	Multiple	Valuation (INR mn)	Value per Share (INR)
Standalone construction - EPC	Mar-19E P/E	1,922	18	34,597	135
BOT Value	FCFE Mar-19E			8,574	33
SOTP Value				43,171	168

Source: HDFC sec Inst Research

Income Statement (Standalone)

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	15,610	20,142	16,891	20,535	28,568
Growth (%)	35.5	29.0	(16.1)	21.6	39.1
Material Expenses	5,717	14,683	11,866	7,290	10,113
Employee Expenses	737	835	1,003	1,183	1,361
Other Operating Expenses	6,990	1,928	1,812	9,364	13,290
EBITDA	2,166	2,696	2,210	2,698	3,804
EBITDA Margin (%)	13.9	13.4	13.1	13.1	13.3
EBITDA Growth (%)	52.7	24.5	(18.0)	22.1	41.0
Depreciation	364	570	533	665	770
EBIT	1,803	2,126	1,677	2,033	3,034
Other Income	138	186	466	359	357
Interest	462	366	203	351	523
PBT	1,478	1,946	1,940	2,041	2,869
Tax (Incl Deferred)	475	(400)	(157)	306	602
RPAT	1,004	2,346	2,097	1,735	2,266
Removing MAT tax savings	(49)	(810)	(576)	(367)	(344)
APAT	954	1,536	1,521	1,368	1,922
APAT Growth (%)	45.3	60.9	(1.0)	(10.1)	40.5
Adjusted EPS (Rs)	3.7	6.0	5.9	5.3	7.5
EPS Growth (%)	45.3	60.9	(1.0)	(10.1)	40.5

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	398	513	513	513	513
Reserves	6,786	13,110	14,581	15,833	17,616
Total Shareholders Funds	7,184	13,623	15,094	16,346	18,129
Long Term Debt	528	117	117	117	117
Short Term Debt	3,003	-	1,470	2,970	3,770
Total Debt	3,530	117	1,587	3,087	3,887
Net Deferred Taxes	4	(30)	(30)	(30)	(30)
Long Term Provisions & Others	2,499	1,598	1,520	1,445	1,374
TOTAL SOURCES OF FUNDS	13,218	15,308	18,171	20,848	23,360
APPLICATION OF FUNDS					
Net Block	2,105	2,125	3,318	3,903	3,984
CWIP	70	19	19	19	19
Investments	4,235	4,644	5,744	7,444	8,844
Total Non-current Assets	6,410	6,788	9,081	11,366	12,846
Inventories	2,225	2,364	1,527	1,969	2,739
Debtors	3,667	3,763	6,247	5,063	6,653
Other Current Assets	3,263	4,988	4,776	5,132	6,357
Cash & Equivalents	212	971	334	1,087	792
Total Current Assets	9,367	12,085	12,885	13,252	16,541
Creditors	1,081	1,062	926	1,125	1,957
Other Current Liabilities & Provs	1,478	2,503	2,869	2,644	4,070
Total Current Liabilities	2,559	3,565	3,795	3,769	6,027
Net Current Assets	6,808	8,520	9,090	9,482	10,514
TOTAL APPLICATION OF FUNDS	13,218	15,308	18,171	20,848	23,360

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	1,478	2,004	1,777	2,041	2,869
Non-operating & EO items	9	(100)	-	-	-
Interest expenses	373	249	(198)	(8)	166
Depreciation	364	525	517	665	770
Working Capital Change	(1,094)	(1,465)	(1,285)	287	(1,398)
Tax Paid	(498)	-	178	(306)	(602)
OPERATING CASH FLOW (a)	632	1,212	989	2,679	1,804
Capex	(1,012)	(394)	(1,710)	(1,250)	(850)
<i>Free cash flow (FCF)</i>	<i>(380)</i>	<i>818</i>	<i>(721)</i>	<i>1,429</i>	<i>954</i>
Investments	(636)	(325)	(1,100)	(1,700)	(1,400)
INVESTING CASH FLOW (b)	(1,648)	(719)	(2,810)	(2,950)	(2,250)
Debt Issuance/(Repaid)	784	(3,413)	1,470	1,500	800
Interest Expenses	(462)	(332)	198	8	(166)
FCFE	(58)	(2,927)	947	2,937	1,588
Share Capital Issuance	-	4,172	0	(0)	0
Dividend	(93)	(161)	(483)	(483)	(483)
FINANCING CASH FLOW (c)	229	265	1,185	1,025	151
NET CASH FLOW (a+b+c)	(788)	759	(637)	754	(295)

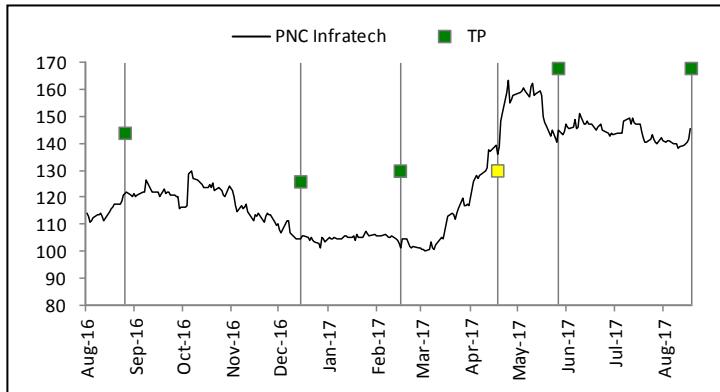
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
GPM	63.4	27.1	29.7	64.5	64.6
EBITDA Margin	13.9	13.4	13.1	13.1	13.3
APAT Margin	6.1	7.6	9.0	6.7	6.7
RoE	14.2	14.8	10.6	8.7	11.2
RoIC (or Core RoCE)	14.0	26.4	15.0	14.0	17.5
RoCE	11.0	19.5	13.8	10.4	12.1
EFFICIENCY					
Tax Rate (%)	32.1	(20.6)	(8.1)	15.0	21.0
Fixed Asset Turnover (x)	4.1	4.7	2.8	2.8	3.5
<i>Inventory (days)</i>	<i>52.0</i>	<i>42.8</i>	<i>33.0</i>	<i>35.0</i>	<i>35.0</i>
<i>Debtors (days)</i>	<i>85.8</i>	<i>68.2</i>	<i>135.0</i>	<i>90.0</i>	<i>85.0</i>
<i>Other Current Assets (days)</i>	<i>76.3</i>	<i>90.4</i>	<i>103.2</i>	<i>91.2</i>	<i>81.2</i>
<i>Payables (days)</i>	<i>25.3</i>	<i>19.2</i>	<i>20.0</i>	<i>20.0</i>	<i>25.0</i>
<i>Other Current Liab & Provns (days)</i>	<i>35.5</i>	<i>45.9</i>	<i>62.0</i>	<i>47.0</i>	<i>52.0</i>
Cash Conversion Cycle (days)	153.3	136.3	189.2	149.2	124.2
Debt/EBITDA (x)	1.6	0.0	0.7	1.1	1.0
Net D/E (x)	0.46	(0.06)	0.08	0.12	0.2
Interest Coverage (x)	3.9	5.8	8.3	5.8	5.8
PER SHARE DATA (Rs)					
EPS	3.7	6.0	5.9	5.3	7.5
CEPS	5.3	11.4	10.3	9.4	11.8
Dividend	1.5	2.5	1.5	1.5	1.5
Book Value	28.0	53.1	58.8	63.7	70.7
VALUATION					
P/E (x)	39.0	24.2	24.5	27.2	19.4
P/BV (x)	5.2	2.7	2.5	2.3	2.1
EV/EBITDA (x)	18.7	13.5	17.4	14.5	10.6
EV/Revenues (x)	2.6	1.8	2.3	1.9	1.4
OCF/EV (%)	1.6	3.3	2.6	6.8	4.5
FCF/EV (%)	(0.9)	2.3	(1.9)	3.6	2.4
FCFE/Mkt Cap (%)	(0.2)	(7.9)	2.5	7.9	4.3
Dividend Yield (%)	1.0	1.7	1.0	1.0	1.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
26-Aug-16	121	BUY	144
14-Dec-16	105	BUY	126
16-Feb-17	103	BUY	130
18-Apr-17	140	NEU	130
28-May-17	144	BUY	168
21-Aug-17	145	BUY	168

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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