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Q4FY21 result review
and target price change

Roads and Highways

Target price Rs317

Target price revision

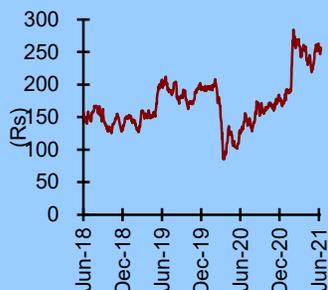
Rs317 from Rs322

Shareholding pattern

| | Sep '20 | Dec '20 | Mar '21 |
|-------------------------|---------|---------|---------|
| Promoters | 56.1 | 56.1 | 56.1 |
| Institutional investors | 30.4 | 29.6 | 38.5 |
| MFs and others | 22.8 | 22.1 | 25.3 |
| FIs/Banks/Ins | 1.4 | 1.6 | 2.3 |
| FIIIs | 6.2 | 5.9 | 10.9 |
| Others | 13.5 | 14.3 | 5.4 |

Source: NSE

Price chart



INDIA

ICICI Securities

PNC Infratech

BUY

Maintain

Rs246

Execution to ramp up going ahead

PNC Infratech's (PNCL) Q4FY21 standalone EPC revenue was up 42% YoY and 24% QoQ to Rs16.4bn owing to pick up in execution across projects. PNCL's net working capital days have remained stable in FY21 at 51 days vs. 57 days in FY20 and the company retains its comfortable standalone net cash position of Rs3.9bn as of Mar'21. With an order book of Rs166bn (3.4x FY21 EPC revenue including L1 order wins) and appointed dates expected for large orders in H1FY22, PNCL is targeting 20% EPC revenue growth in FY22E after clocking flattish FY21 EPC revenue. Overall order wins for FY22E are expected to range between Rs70-80bn (excluding L1 contracts as of Mar'21) on the back of strong NHA1 order pipeline. We retain our BUY rating on PNCL with a revised SoTP based target price of Rs317/share (earlier Rs322) including Rs254 for the standalone EPC business valued on 12x Mar-23E standalone EPS of Rs21.2 and Rs63 for BOT/HAM portfolio. Key risks are slowdown in NHA1 orders and delay in execution of ongoing projects.

- EPC revenues up 42% YoY as execution picks up:** PNCL's Q4FY21 standalone EPC revenue was up 42% YoY and 24% QoQ to Rs16.4bn owing to pick up in execution across projects. EBITDA margins improved 60bps on QoQ basis to 14.1% while a 53% YoY reduction in interest costs led to APAT growing 70% YoY to Rs1.3bn. Net working capital days improved to 51 days during the quarter from 67 days in Q3FY21. The company has given guidance for a 20% YoY EPC revenue growth for FY22E after meeting its guidance for flat FY21 EPC revenue of Rs49.3bn and factoring in second Covid wave related disruptions. The company expects EBITDA margins to remain in the 13.5-14% range for FY22E as well (13.7% in FY21) as recent rise in input costs have escalation clauses built into the contracts.
- Liquidity position remains comfortable:** Liquidity levels at standalone level remain comfortable with PNCL being a net cash company as of Mar'21 with gross debt of Rs4.0bn (D/E of 0.1x) and cash/investments of Rs7.9bn. PNCL currently requires another Rs8.6bn of equity infusion in its under-construction and recently won HAM projects by FY24E (Rs6.0bn equity infused as of Mar'21). While estimated surplus operating cash flow of Rs12.5bn over FY22-24E would be sufficient to fund this requirement, the company's asset monetisation plans for existing projects would enable churning of capital.
- Strong order book, looking to diversify order book going ahead:** PNCL's order book at the end of Q4FY21 stood at Rs116.5bn and including recently won road/irrigation/water projects, order book stands at Rs166.2bn (3.4x FY21 EPC revenue). With a robust NHA1 bid pipeline for FY22-23E, PNCL is targeting order wins of Rs70-80bn in FY22E as well. The company continues to look to diversify its order book by foraying into metro, water and railway orders apart from roads.

| | | | | | | |
|--------------------------|------------------|---------------------------------|-------------|-------------|--------------|--------------|
| Market Cap | Rs63bn/US\$849mn | Year to Mar (Standalone) | FY20 | FY21 | FY22E | FY23E |
| Reuters/Bloomberg | PNCL.BO/PNCL IN | Revenue (Rs mn) | 48.8 | 49.3 | 56.6 | 65.4 |
| Shares Outstanding (mn) | 256.5 | Rec. Net Income (Rs mn) | 3.2 | 3.6 | 4.5 | 5.4 |
| 52-week Range (Rs) | 284/128 | EPS (Rs) | 12.6 | 14.1 | 17.4 | 21.2 |
| Free Float (%) | 43.9 | % Chg YoY | 38.7 | 11.4 | 23.5 | 21.9 |
| FII (%) | 10.9 | P/E (x) | 19.5 | 17.5 | 14.1 | 11.6 |
| Daily Volume (US\$/'000) | 3,654 | P/B (x) | 2.5 | 2.2 | 1.9 | 1.7 |
| Absolute Return 3m (%) | (3.4) | EV/E (x) | 7.7 | 8.9 | 8.1 | 7.0 |
| Absolute Return 12m (%) | 76.3 | Dividend Yield (%) | 0.3 | 0.3 | 0.6 | 0.6 |
| Sensex Return 3m (%) | 8.0 | RoCE (%) | 17.9 | 11.6 | 13.4 | 14.2 |
| Sensex Return 12m (%) | 51.9 | RoE (%) | 13.9 | 13.2 | 14.4 | 15.3 |

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Table 1: Q4FY21 standalone result snapshot

| (Rs mn) | Q4FY21 | Q4FY20 | YoY (%) | Q3FY21 | QoQ (%) |
|--------------------------|---------------|---------------|-------------|---------------|-------------|
| Net Sales | 16,443 | 11,579 | 42.0 | 13,224 | 24.3 |
| Material Expenses | (11,685) | (8,225) | 42.1 | (9,231) | 26.6 |
| Employee Expenses | (775) | (623) | 24.4 | (924) | (16.0) |
| Other Operating Expenses | (1,659) | (1,168) | 42.0 | (1,285) | 29.1 |
| EBITDA | 2,324 | 1,563 | 48.7 | 1,785 | 30.2 |
| Depreciation | (300) | (324) | (7.3) | (282) | 6.5 |
| EBIT | 2,024 | 1,240 | 63.3 | 1,504 | 34.6 |
| Other Income (incl. EO) | 171 | 159 | 7.0 | 243 | (29.6) |
| Interest Cost | (148) | (316) | (53.3) | (153) | (3.1) |
| PBT | 2,047 | 1,083 | 89.1 | 1,594 | 28.4 |
| Tax | (753) | (322) | 133.9 | (562) | 34.0 |
| RPAT | 1,294 | 761 | 70.1 | 1,032 | 25.4 |
| EO Items | - | - | NA | - | NA |
| APAT | 1,294 | 761 | 70.1 | 1,032 | 25.4 |

Source: Company data, I-Sec research

Table 2: Q4FY21 Margin Analysis

| | Q4FY21 | Q4FY20 | YoY (bps) | Q3FY21 | QoQ (bps) |
|--------------------------------------|-------------|-------------|------------|-------------|-----------|
| Material Expenses % Net Sales | 71.1 | 71.0 | 3 | 69.8 | 126 |
| Employee Expenses % Net Sales | 4.7 | 5.4 | (67) | 7.0 | (227) |
| Other Operating Expenses % Net Sales | 10.1 | 10.1 | 0 | 9.7 | 37 |
| EBITDA Margin (%) | 14.1 | 13.5 | 63 | 13.5 | 63 |
| Tax Rate (%) | 36.8 | 29.7 | 705 | 35.3 | 153 |
| APAT Margin (%) | 7.9 | 6.6 | 130 | 7.8 | 7 |

Source: Company data, I-Sec research

Table 3: Key assumptions

| Development Properties | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E |
|-------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Opening order book (Rs mn) | 89,800 | 1,06,740 | 1,31,449 | 1,35,324 | 1,16,479 | 1,41,657 |
| Add: New order wins (Rs mn) | 34,906 | 55,425 | 52,654 | 30,410 | 81,820 | 86,902 |
| Less: Orders executed (Rs mn) | 17,966 | 30,716 | 48,779 | 49,254 | 56,642 | 65,433 |
| Closing order book (Rs mn) | 106,740 | 1,31,449 | 1,35,324 | 1,16,479 | 1,41,657 | 1,63,126 |
| Closing order book/sales (x) | 5.9 | 4.3 | 2.8 | 2.4 | 2.5 | 2.5 |

Source: Company data, I-Sec research estimates

Table 4: PNCL SoTP valuation

| Segment | Amount (Rs mn) | Rs/share | % of SoTP |
|----------------------------------|----------------|------------|-----------|
| Standalone EPC @ 12x Mar-23 APAT | 65,246 | 254 | 80.3 |
| BOT assets FCFE | 7,654 | 30 | 9.4 |
| HAM equity – HAM investments | 8,376 | 33 | 10.3 |
| SoTP Value | 81,275 | 317 | |

Source: I-Sec research estimates

Financial summary (standalone)

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|------------------------------|---------------|---------------|---------------|---------------|
| Net Sales | 48,779 | 49,254 | 56,642 | 65,433 |
| Operating Expenses | 41,136 | 42,527 | 48,942 | 56,391 |
| EBITDA | 7,643 | 6,727 | 7,701 | 9,042 |
| % margins | 15.7% | 13.7% | 13.6% | 13.8% |
| Depreciation & Amortisation | 1,264 | 1,124 | 1,395 | 1,532 |
| Interest expenses | 1,144 | 771 | 957 | 828 |
| Other Income | 885 | 752 | 613 | 584 |
| PBT | 6,120 | 5,585 | 5,961 | 7,266 |
| Less: Taxes | 1,517 | 1,974 | 1,500 | 1,829 |
| PAT before e/o items | 4,603 | 3,611 | 4,460 | 5,437 |
| Extraordinary items | 1,360 | - | - | - |
| Net Income (Adjusted) | 3,243 | 3,611 | 4,460 | 5,437 |

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|--|---------------|---------------|---------------|---------------|
| Assets | | | | |
| Total Current Assets | 26,662 | 26,207 | 29,125 | 32,159 |
| of which cash & cash eqv. | 7,401 | 7,683 | 4,141 | 3,297 |
| Total Current Liabilities & Provisions | 8,838 | 8,561 | 10,961 | 13,072 |
| Net Current Assets | 17,824 | 17,645 | 18,165 | 19,086 |
| Goodwill/Investments | 10,345 | 12,805 | 16,158 | 20,171 |
| Net Fixed Assets | 5,880 | 6,592 | 5,996 | 5,964 |
| Total Assets | 34,050 | 37,041 | 40,319 | 45,222 |
| Liabilities | | | | |
| Borrowings | 3,266 | 4,440 | 3,375 | 3,525 |
| Equity Share Capital | 513 | 513 | 513 | 513 |
| Reserves & Surplus* | 24,953 | 28,572 | 32,549 | 37,503 |
| Net Worth | 25,466 | 29,085 | 33,062 | 38,016 |
| Minority Interest | - | - | - | - |
| Deferred Taxes/Other Liabilities | 5,318 | 3,517 | 3,882 | 3,681 |
| Total Liabilities | 34,050 | 37,041 | 40,319 | 45,222 |

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|---|----------------|----------------|----------------|----------------|
| PBT | 6,120 | 5,585 | 5,961 | 7,266 |
| Depreciation | 1,264 | 1,124 | 1,395 | 1,532 |
| Interest expenses | 444 | 333 | 345 | 244 |
| Working Capital Changes | 1,823 | (2,235) | (2,841) | (1,966) |
| Taxes Paid | (1,612) | (1,998) | (1,500) | (1,829) |
| Other misc items | 87 | (752) | (613) | (584) |
| Operating Cashflow | 8,126 | 2,057 | 2,746 | 4,664 |
| Capital Commitments | (909) | (1,820) | (800) | (1,500) |
| Free Cashflow | 7,217 | 237 | 1,946 | 3,164 |
| Other investing cashflow | (1,395) | (362) | (3,387) | (2,916) |
| Cashflow from Investing Activities | (2,304) | (2,182) | (4,187) | (4,416) |
| Issue of Share Capital | - | - | (0) | 0 |
| Inc (Dec) in Borrowings | (482) | 727 | (615) | 150 |
| Interest expenses | (725) | (653) | (345) | (244) |
| Dividend paid | (309) | - | (483) | (483) |
| Cashflow from Financing activities | (1,516) | 74 | (1,443) | (578) |
| Chg. in Cash & Bank balances | 4,306 | (51) | (2,884) | (330) |

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|--|-------|--------|-------|-------|
| Per Share Data (Rs) | | | | |
| EPS | 12.6 | 14.1 | 17.4 | 21.2 |
| Cash EPS | 22.9 | 18.5 | 22.8 | 27.2 |
| Dividend per share (DPS) | 0.7 | 0.7 | 1.5 | 1.5 |
| Book Value per share (BV) | 99.3 | 113.4 | 128.9 | 148.2 |
| Growth (%) | | | | |
| Net Sales | 58.8 | 1.0 | 15.0 | 15.5 |
| EBITDA | 76.9 | (12.0) | 14.5 | 17.4 |
| PAT | 38.7 | 11.4 | 23.5 | 21.9 |
| Valuation Ratios (x) | | | | |
| P/E | 19.5 | 17.5 | 14.1 | 11.6 |
| P/BV | 2.5 | 2.2 | 1.9 | 1.7 |
| EV / EBITDA | 7.7 | 8.9 | 8.1 | 7.0 |
| Dividend Yield | 0.3 | 0.3 | 0.6 | 0.6 |
| Operating Ratios | | | | |
| Debt/EBITDA (x) | 0.4 | 0.7 | 0.4 | 0.4 |
| Net D/E | (0.2) | (0.1) | (0.0) | 0.0 |
| Profitability/Return Ratios (%) | | | | |
| RoE | 13.9 | 13.2 | 14.4 | 15.3 |
| RoCE | 17.9 | 11.6 | 13.4 | 14.2 |
| EBITDA Margins | 15.7 | 13.7 | 13.6 | 13.8 |
| Net Income Margins | 9.4 | 7.3 | 7.9 | 8.3 |

Source: Company data, I-Sec research

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