

# PNC Infratech Ltd

BUY

CMP Rs245

Target Rs320

Upside 31%

## Well placed to deliver - BUY

### Conference call takeaways

- ✓ PNC's execution during Q3 FY21 was robust with monsoon ending and certain projects moving under execution. The better labor availability also helped execution during the quarter. The company managed to maintain its operating margin at ~13%. Going forward, PNC expects margins to remain at 13.5-14% levels.
- ✓ Considering the current pace of execution and better labor availability, the Management now expects to close the year with flat to marginal growth in topline during FY21. This is as against 10% decline guided earlier.
- ✓ The order book at the end of Dec'20 stood at ~Rs.98 bn which excludes a) Challakere-Hariyur HAM project (EPC value: Rs.9.4 bn), b) Meerut Nazibabad section HAM project (BPC: Rs.14.1 bn) and c) Delhi - Vadodara Greenfield Alignment EPC project (2 packages having value: Rs.15.5bn) d) Irrigation/Water projects worth Rs.38 bn. Including these projects, the order book stands at ~Rs.180 bn.
- ✓ The Company has won Rs. 40 bn of Irrigation/ Water projects in recent past which has provided strong support to the order book. The Company has bid for ~Rs.150 bn of NHAI projects (40% EPC and balance HAM) and is targeting some NHAI projects in near term. It expects to keep its exposure to non-Road segment at not more than 20% of the overall order book.
- ✓ The Company recently received the appointed date in Challakere - Hariyur HAM project. The appointed date for the two EPC projects of Delhi Vadodara Expressway is also expected by March end. The timely receipt of appointed dates would see sharp pickup in execution during FY22 and beyond.
- ✓ For divestment of its stake in Ghaziabad Aligarh Road Project, the company is under advanced discussions with a prospective investor and the due diligence has been completed by the investor. Progress on this is likely in near term.
- ✓ The interest cost decline drastically during the quarter as the Company paid off certain high interest bearing Mobilization advance. Net Working Capital Days stood at 67 days (85 days in Q2 end). The WC is currently under comfortable zone for the Company.
- ✓ The equity requirement for existing HAM projects is ~Rs.8.5 bn of which ~Rs.5.4 bn has been invested and Rs.3.1 bn investment is pending. Additionally, Rs.6.2 bn of Equity would be required to be invested for the recently won 4 HAM projects. Thus total equity requirement including recently won projects stands at Rs.9.3 bn. The management has guided for Rs.3.5 bn/Rs.1.7 bn/Rs.1.2 bn towards equity requirement during period of FY22E/FY23E/FY24E respectively.
- ✓ As per the management, traffic level and toll collection saw good growth in Q3FY21 and in Jan-21.
- ✓ Toll collection: Ghaziabad-Aligarh (Rs.629 mn), Kanpur-Ayodhya (Rs.1.24 bn), Kanpur highway (Rs.250 mn), Bareilly-Almora (Rs.140 mn), Narela (Rs.99 mn), Rayalaseema (Rs.1.3 bn). Overall these tolls have shown a growth in the range of 20-40%. Kanpur highway have shown 40% yoy while Bareilly-Almora has grown 42%. Overall 22% yoy growth seen.

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# PNC Infratech Ltd

- ✓ The company has revised Capex guidance to Rs.2 bn versus Rs.1.25 bn earlier for FY21E as new projects have been awarded and need to mobilise resources for the projects. FY22 capex will be ~Rs750-1 bn. No major capex towards irrigation segment in this year.
- ✓ The standalone debt stands at Rs.3.65bn which is towards equipment finance. The cash stands at Rs.8.33 bn

## Our view

The Company has won several projects in recent months in Water segment which has pumped up the order book to all time high levels. With the appointed dates of pending projects expected soon, execution is set to improve in FY22. The strong NHAI pipeline would translate to several new order flows in next few months. Taking all these factors into consideration and a comfortable balance sheet position, we believe PNC is very well placed to capitalize on the opportunity. We increase our estimates for FY22/23 to incorporate the recent order flows, improved outlook and maintain our BUY rating for revised target of Rs.320 (based on SOTP valuation).

## PNC Infratech Q3 FY21 results summary

- ✓ PNC Infratech reported topline growth of 9% yoy (to Rs.13.2 bn) on standalone basis which was higher than our estimates of Rs.12.3 bn. The execution improved over Q2 with better labor availability and monsoon impact reducing.
- ✓ Operating margin remained healthy at 13.5% in Q3 FY 21 (flat qoq) which was in-line with our estimates. PAT grew 34% yoy to Rs.1.03 bn (higher than our estimate of Rs.893 mn) supported by sharp decline in finance cost.
- ✓ Order book at the end of Q3 FY21 stood at ~Rs.98 bn.
- ✓ The Company has received several projects recently in Water segment which has improved the Order book.

## Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs m)	Q3 FY21	Q3 FY20	yoy(%)	Q2 FY21	qoq (%)
Revenue	13,224	12,180	8.6	10,535	25.5
Operating Profit	1,785	1,712	4.3	1,421	25.6
OPM(%)	13.5	14.1	(56 bps)	13.5	1 bps
Other Income	243	144	68.9	148	63.8
Depreciation	(282)	(326)	(13.7)	(272)	3.4
Interest	(153)	(401)	(62.0)	(218)	(30.0)
PBT	1,594	1,128	41.3	1,079	47.7
Tax	(562)	(356)	57.6	(386)	45.5
Adjusted PAT	1,032	771	33.8	693	49.0

## Exhibit 2: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY20	FY21E	FY22E	FY23E
Revenues	48,779	45,365	55,153	68,570
yoy growth (%)	57.5	(7.0)	21.6	24.3
Operating profit	7,643	6,349	7,597	9,939
OPM (%)	15.7	14.0	13.8	14.5
Reported PAT	4,603	3,213	3,908	5,430
yoy growth (%)	41.7	(30.2)	21.6	39.0
EPS (Rs)	17.9	12.5	15.2	21.2
P/E (x)	13.7	19.6	16.1	11.6
EV/EBITDA (x)	7.7	9.3	8.0	6.3
Debt/Equity (x)	0.1	0.1	0.2	0.2
RoE (%)	19.7	11.9	12.8	15.6

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