

PNC Infratech Ltd – BUY

Robust executable order book position – A big positive

Strong order book position; better placed to tackle the slowdown in NHAI awarding

At the end of Q1 FY20, PNC has one of the strongest order book position in the industry with 3.5x FY19 book-to-bill (~Rs.110bn; excluding Challakere -Hariyur HAM having EPC cost: ~Rs.9.4bn). As awarding from NHAI is likely to be subdued in FY20, PNC is better placed to tackle this slowdown. PNC is targeting new order inflows of ~Rs.60 bn during FY20, primarily from the Roads and Highways segment with equal mix of HAM and EPC projects.

Appointed date in-place for most projects; expect topline CAGR of 37% during FY19-21E

Out of its 7 HAM projects, PNC has received appointed dates in 6 HAM projects and are already contributing to revenues. In the remaining 1 HAM project, the company has achieved financial closure and expecting appointed date by Nov'19. During FY19/Q1 FY20, the company reported robust performance with topline growth of ~67%/~80% yoy respectively. With robust order book position, and increase in contribution from all current HAM projects, we expect company to deliver ~37% topline CAGR during FY19-21E.

Operating margin likely to be robust at ~14%; receipt of early completion bonus provides upside potential

PNC's has posted robust performances at operating level with a) prudent bidding strategy, b) easy access to raw material, c) inhouse execution with no/minimum sub-contracting and d) select areas (primarily UP and Bihar). We expect margin to remain strong at current levels of ~14%. However, award of bonuses for early project completion provides upside potential to the base margins.

CMP (Rs) (As on Sep 25, 2019)	189	Sector: Infrastructure	
12-mts Target (Rs)	275	Market cap (Rs mn)	48,486
Upside	46%	Enterprise value (Rs mn)	48,228

Exhibit 1: Financial summary (Standalone)

Y/e 31 Mar (Rs m)	FY18	FY19	FY20E	FY21E
Revenues	18,566	30,969	49,550	58,469
yoy growth (%)	9.9	66.8	60.0	18.0
Operating profit	3,188	4,574	7,104	8,390
OPM (%)	17.2	14.8	14.3	14.3
Reported PAT	2,510	3,249	4,058	4,615
yoy growth (%)	19.7	29.4	24.9	13.7
EPS (Rs)	9.8	12.7	15.8	18.0
P/E (x)	19.3	14.9	11.9	10.5
EV/EBITDA (x)	15.2	10.5	7.2	6.0
Debt/Equity (x)	0.1	0.1	0.2	0.2
RoE (%)	14.9	16.6	17.6	16.9

Source: Company, YES Sec - Research

Comfortable balance sheet position provides flexibility to bid for more projects

PNC has ~Rs.5.5 bn of pending equity requirement towards its existing HAM projects (~Rs.2.8bn: infused till Q1 FY20; ~Rs.2.4bn: to be spent in rest of FY20 and ~Rs.3.1bn in FY21/22). We believe, PNC is well-placed to fulfil its equity requirement largely by internal accruals. In addition, PNC would be one of the few better-placed players to bid for upcoming HAM projects given its lean balance sheet.

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Research Analyst: Alok Deora ✉ alok.deora@ysil.in | Lokesh Kashikar ✉ lokesh.kashikar@ysil.in

Head of Research: Amar Ambani ✉ amar.ambani@ysil.in

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Fully funded and largely operational BOT portfolio

PNC has bagged asset-heavy BOT projects to tackle slowdown in the road EPC space in the past. Most of its BOT projects are operational and the portfolio does not require further equity funding. As of now, the company has invested equity to the tune of Rs.4.6 bn in existing projects. With its attention on the execution on already bagged EPC and HAM projects, PNC plans to avoid asset-heavy projects in the near to medium term. We believe this strategy would keep leverage under check, while ensuring smooth execution.

Divestment of asset-heavy projects would be a big positive

PNC has already executed a Share Purchase Agreement (SPA) with Cube Highways and Infrastructure during May'19 for sale of 35% stake in Ghaziabad Aligarh Road Project. The total cash inflows to PNC from the deal is likely to be ~Rs.3bn (with the likely ~Rs.10bn reduction from company's total exposure). This will partially aid company in meeting its pending equity requirement of existing HAM projects. Also, the company is in the various stage of discussions with 3-4 investors for monetization of certain projects in its HAM portfolio. This is inline with its strategy to remain asset-light. The asset sale would allow PNC to bid for large number of new projects.

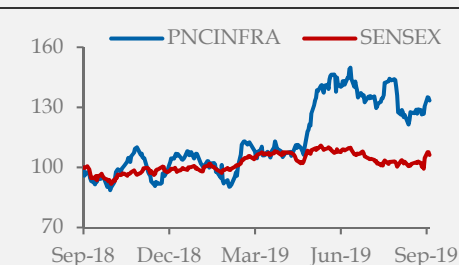
Valuation attractive considering the growth potential

We believe, PNC is well-placed with a) robust executable order book, b) elevated operating margin and c) lean balance sheet position. The standalone construction business has been valued on P/E basis and the BOT basis has been valued on Price to book basis. We recommend a BUY on stock with the target price of Rs.275.

Company rating grid

	Low		High		
	1	2	3	4	5
Earning growth				4	
Cash flow			3		
B/S strength				4	
Valuation appeal			3		
Risk		1			

Stock performance



Market Data (As on Sep 25, 2019)

Sensex:	38,594
52 Week h/l (Rs)	219 / 123
6m Avg t/o (Rs mn):	39.4
FV (Rs):	2
Div yield (%):	0.3
Bloomberg code:	PNCL IN
BSE code:	539150
NSE code:	PNCINFRA

	1M	3M	1Y
Absolute return	5.6%	-6.7%	33.4%

Shareholding pattern (as of Jun'19 end)

Promoter	56.1%
FII+DII	28.4%
Others	15.5%

Exhibit 2: SOTP Valuation for PNC Infra

Valuation	Basis	Valuation (per share)
A.PNC Infra Standalone EPC business		
Price/ Earnings	13x	Rs.234
B.PNC Infra BOT business		
Price/ Book	1x	Rs.41
	Target	Rs.275
	CMP	Rs.189
	Upside	46%

Source: Company, YES Sec – Research

Exhibit 3: Key HAM project status (as on June 30, 2019)

Key Project	State	Total Project Cost (Rs bn)	Equity Requirement (Rs bn)	Total Debt (Rs bn)	Total Grant (Rs bn)	Invested Equity (Rs bn)	Outstanding Order book value	Status
Dausa- Lalsot- kathun	Rajasthan	8.2	0.7	3.7	3.8	0.6	1.4	Under Construction
Chitradurga- Davangere	Karnataka	13.4	1.1	6.1	6.3	0.6	6.8	Under Construction
Jhasi- Khajuraho (Package -I)	UP and MP	13.4	1.3	6	6.1	0.6	7.1	Under Construction
Jhasi- Khajuraho (Package -II)	UP and MP	12.6	1.0	5.9	5.6	0.4	5.8	Under Construction
Chakeri to Allahabad	UP	20.2	1.9	8.7	9.5	-	16.7	Under Construction
Challakere- Hariyur Section*	Karnataka	10.1	1.1	4.5	4.6	-	9.3	Financial closure achieved; Awaiting appointed date

Source: Company, YES Sec - Research; *Estimate

Exhibit 4: Key EPC projects (as on June 30, 2019)

Key Project	Order book Value (Rs bn)
Nagpur- Mumbai Communication Expressway	19.1
Purvanchal Expressway Pkg- V	13.3
Purvanchal Expressway Pkg- VI	8.5
Nagina - Kashipur	7.5
Bhojpur - Buxar	3.8
Varanasi - Gorakhpur	3.4
Koliwar - Bhojpur	3.4

Source: Company, YES Sec - Research

FINANCIALS (STANDALONE)

Exhibit 5: Balance sheet

Y/e 31 Mar (Rs m)	FY18	FY19	FY20E	FY21E
Equity capital	513	513	513	513
Reserves	17,554	20,639	24,536	28,957
Net worth	18,067	21,152	25,049	29,470
Other LT Liabilities	1,652	3,703	5,924	6,991
LT provision.	47	88	88	88
Borrowing	1,697	2,837	4,837	5,587
Deferred tax liab (net)	(20)	(5)	(5)	(5)
Total liabilities	21,443	27,775	35,893	42,130
Fixed assets	4,048	6,197	6,233	6,340
Intangible assets	16	20	20	20
CWIP	111	62	62	62
Investments	4,948	5,730	8,430	10,930
Other Non-current Asset	4,663	5,442	6,966	6,576
Net working capital	6,183	7,291	12,280	14,175
Current Assets				
Inventories	1,758	4,036	6,516	7,689
Sundry debtors	6,900	6,154	10,860	12,815
Other current assets	3,927	6,477	10,181	12,014
Cash	1,584	3,094	1,964	4,089
Current Liabilities				
Sundry creditors	(4,628)	(4,737)	(7,874)	(9,611)
Other current liabilities	(1,645)	(4,610)	(7,376)	(8,703)
Provision	(129)	(28)	(28)	(28)
Total assets	21,443	27,775	35,893	42,130

Exhibit 6: Income statement

Y/e 31 Mar (Rs m)	FY18	FY19	FY20E	FY21E
Revenue	18,566	30,969	49,550	58,469
Operating profit	3,188	4,574	7,104	8,390
Depreciation & Amortization	(772)	(922)	(1,214)	(1,393)
PBIT	2,416	3,651	5,890	6,997
Interest expense	(307)	(641)	(767)	(1,147)
Other income	230	430	301	316
Profit before tax	2,339	3,441	5,423	6,167
Taxes	171	(191)	(1,365)	(1,552)
Reported profit	2,510	3,249	4,058	4,615

Exhibit 7: Cash flow statement

Y/e 31 Mar (Rs m)	FY18	FY19	FY20E	FY21E
Cash flow from Operation				
Profit before tax	2,339	3,441	5,423	6,167
Depreciation	772	922	1,214	1,393
Tax paid	171	(191)	(1,365)	(1,552)
Other income and Interest expense	77	211	466	830
Working capital Δ	(368)	(1,887)	(6,513)	(1,505)
Operating cashflow	2,991	2,495	(774)	5,333
Cash flow from Investing Activities				
Capital expenditure	(1,357)	(3,075)	(1,250)	(1,500)
Free cash flow	1,634	(580)	(2,024)	3,833
Cash flow from Financing Activities				
Equity raised	-	-	-	-
Investments	(272)	(782)	(2,700)	(2,500)
Debt financing/ disposal	6	1,140	2,000	750
Dividends paid	(161)	(162)	(162)	(194)
Other items (incl Other income and Interest expense)	(55)	1,894	1,755	236
Net Δ in cash	1,151	1,510	(1,130)	2,125

Exhibit 8: Ratio analysis

Y/e 31 Mar (Rs m)	FY18	FY19	FY20E	FY21E
Growth matrix (%)				
Revenue growth	9.9	66.8	60.0	18.0
Op profit growth	44.3	43.4	55.3	18.1
EBIT growth	23.5	54.2	51.7	18.1
PBT growth	20.6	47.1	57.6	13.7
EPS growth	19.7	29.4	24.9	13.7
Profitability ratios (%)				
OPM	17.2	14.8	14.3	14.3
EBIT margin	14.3	13.2	12.5	12.5
Net profit margin	13.5	10.5	8.2	7.9
RoCE	13.1	16.6	19.4	18.7
RoNW	14.9	16.6	17.6	16.9
RoA	9.7	10.0	9.2	8.3
Per share ratios (Rs)				
EPS	9.8	12.7	15.8	18.0
Dividend per share	0.5	0.5	0.5	0.6
Cash EPS	12.8	16.3	20.6	23.4
Book value per share	70.4	82.5	97.6	114.9
Payout (%)				
Dividend payout	6.4	5.0	4.0	4.2
Tax payout	(7.3)	5.6	25.2	25.2
Liquidity ratios				
Debtor days	135.7	72.5	80.0	80.0
Inventory days	34.6	47.6	48.0	48.0
Creditor days	91.0	55.8	58.0	60.0

Y/e 31 Mar (Rs m)	FY18	FY19	FY20E	FY21E
Leverage ratios (x)				
Interest coverage	8.6	6.4	8.1	6.4
Net debt / equity	0.0	(0.0)	0.1	0.1
Valuation ratios (x)				
P/E	19.3	14.9	11.9	10.5
P/BV	2.7	2.3	1.9	1.6
EV/EBITDA	15.2	10.5	7.2	6.0
Dividend Yield	0.3	0.3	0.3	0.3
MCAP/Sales (x)	2.6	1.6	1.0	0.8

Exhibit 9: Du-pont analysis

Y/e 31 Mar (Rs m)	FY18	FY19	FY20E	FY21E
Tax burden (x)	1.1	0.9	0.7	0.7
Interest burden (x)	0.9	0.8	0.9	0.8
EBIT margin (x)	0.1	0.1	0.1	0.1
Asset turnover (x)	0.7	1.0	1.1	1.0
Financial leverage (x)	1.5	1.7	1.9	2.0
RoE (%)	14.9	16.6	17.6	16.9

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YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre,
Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.
Tel: +91-22-71123123 | **Email:** research@ysil.in | **Website:** www.yesinvest.in

CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE & MCX:
INZ000185632 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:
INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338 |

Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@ysil.in, Contact No-+91-22-33479208

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