

CMP: ₹ 515

Target: ₹ 620 (20%)

Target Period: 12 months

BUY

May 28, 2024

Well poised for scalability ahead...

About the stock: PNC Infratech has established itself as a strong executor in roads and water infra segments with an overall order book of ₹ 20,490 crore.

- Reported 20% revenue CAGR in FY19-24; with robust return ratios (RoCE: ~23% in FY24)

Q4 & FY24 Performance: Standalone revenue in Q4FY24 was up ~10.8% YoY at ₹ 2342 crore, with core revenue being weak at ₹ 2045 crore, down 3.3% YoY. EBITDA margin stood at 24.1% (up 9.8 percentage pts YoY) aided by claims receipt of ₹ 297 crore. Adjusted margins were stable at 13.1%. PAT was up ~118% YoY at ₹ 402 crore (Adjusted PAT was flattish YoY). For FY24, standalone revenue at ₹ 7699 crore, was up 9% YoY. Adj. EBITDA Margin was at 12.7%, was down 78 bps YoY. Adj. PAT at ₹ 628 crore, was up 2.6% YoY.

Investment Rationale:

- Order book Decent; provides healthy revenues visibility:** The orderbook as of FY24 stood at ₹ 15490 crore, 2.x TTM book to bill. Including new orders was healthy at ₹ 20400 crore, 2.7x book to bill. After bagging ₹ 4994 crore order in Q1, the company has guided for further order inflows of ₹ 8000-10,000 crore in FY25. We conservatively bake in revenue CAGR of ~10% over FY24-26E, in line with management guidance but believe that if strong order inflows are seen in FY25 along with quick ramp up thereafter, FY26 revenue could surprise positively. On the margins front, given the competitive intensity, we have baked in adjusted EBITDA margins of 12.5%/12.6% in FY25/FY26, respectively.
- Asset monetisation proceed/ Claims to boost scalability:** PNC asset deal of 12 road projects for an enterprise value of about ₹9,006 crore (₹ 2902 crore equity value) to KKR is likely to be consummated in FY25 in two tranches. We believe this inflow along with claims of ₹ 675 crore under Vivad se Vishwas scheme (over FY24 & FY25 on standalone basis) would provide strong cash ammunition for growth ahead.
- Well-placed to fund HAM projects:** As of FY24, the company has infused ₹ 1,975 crore into its road assets and the remaining equity of ₹ 1,117 crores is to be invested over the next 2 to 3 years. The equity requirement will largely be met through internal generation.

Rating and Target Price

- PNC has exhibited healthy track record in executing road and water segment projects. With asset monetisation and claims, incremental cash will free up capital and drive scalability. We expect PNC to be key beneficiary post ordering resumption in FY25.
- We value PNC at ₹ 620 on SoTP basis and maintain our BUY rating



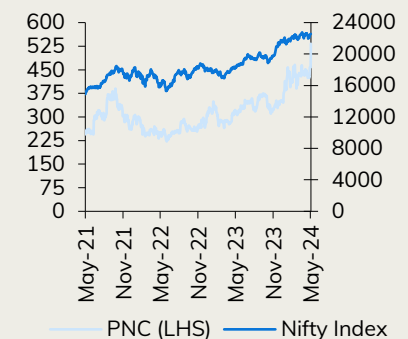
Particulars

Particular	₹ crore
Market Cap	13,212
Debt - FY24	382
Cash - FY24	713
EV (₹ crore)	12,881
52 week H/L (₹)	574/ 304
Equity capital	51.3
Face value (₹)	2.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	56.1	56.1	56.1	56.1
DII	28.5	28.1	27.2	27.0
FII	10.3	10.6	11.0	11.9
Other	5.2	5.3	5.7	5.1

Price Chart



Key risks

- Lower order inflows
- Delay in any major projects

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Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	2 yr CAGR (FY24-26E)
Net Sales	4,925	6,306	7,061	7,699	20.0%	8,511	9,365	10.3%
EBITDA	677	787	954	1,277	NC	1,442	1,180	NC
EBITDA Margin (%)	13.7	12.5	13.5	16.6		16.9	12.6	
Adjusted PAT	362	448	611	628	14.6%	706	803	13.1%
EPS (₹)	14.1	17.5	23.8	33.1		38.6	31.3	
P/E (x)	36.5	29.5	21.6	15.5		13.4	16.4	
EV/EBITDA (x)	18.8	16.4	13.9	10.1		8.5	10.3	
RoNW (%)	12.4	13.4	15.5	13.1		12.3	12.3	
RoCE (%)	19.2	20.0	20.1	23.3		23.0	16.9	

Source: Company, ICICI Direct Research * FY24 & FY25 topline and margins include arbitration claims of ₹ 297 crore and ₹ 378 crore, respectively.

Q4 & FY24 Performance highlights and outlook

- Guidance:** The company has guided for 10% revenue growth in FY25. It also expects the margins to come off to 12-12.5% range from current 13-13.5% range, given the competitive intensity. In terms of order inflow, after bagging ₹ 4994 crore order book, **the company has guided for further order inflows of ₹ 8000-10,000 crore, implying overall order inflow guidance of ₹ 13000-15000 crore in FY25.**
- Order book:** The orderbook as of FY24 stood at ₹ 15490 crore, 2.x TTM book to bill. Out of the unexecuted order book, highway and expressway contracts contributed around 70%, while water and canal projects contributed around 30%. Barring a HAM project in MP with EPC cost of ₹ 1091 crore and another EPC road project in MP worth ₹ 699 crore, the company has not won any orders in FY24. In Q1FY25, PNC infra emerged as L1 bidder for two EPC road projects of MSRDC worth ₹ 4994 crore. Thus, PNC's order book (OB), including new orders was healthy at ₹ 20400 crore, 2.7x book to bill.
- Bid Pipeline:** The company has identified over 100 projects for evaluation, comprising of 20 EPC projects, 60 HAM projects and 30 BOT toll projects for a total value in excess of ₹ 1 lakh crore. The company's preference for bidding will be EPC projects first followed by HAM projects and then BOT projects.
- Water segment:** Water and canal projects order book value as on FY24 was at ₹ 3740 crore. The company has booked a total revenue of ₹ 2383 crore in the Jal Jeevan Mission (drinking water segment) with ₹ 1906 crore in FY24) and ₹ 555 crore in Q4FY24. **Overall, the management expects revenue of ₹ 2500 crore from JJM in FY25.**
- Asset Monetisation:**
 - The company indicated that asset deal will be completed in two phases. In Phase 1, by August, 2024, 7 assets: 6 HAM and 1 BOT toll with the enterprise value Rs.5,015 crore (Debt of ₹ 3559) would be transferred. In the second phase, 5 assets with the enterprise value of ₹ Rs.3,990 crore (Debt of ₹ 2920) would be transferred by December, 2024.
 - Recall, PNC had signed a definitive agreement to sell its portfolio of 12 road projects (Eleven HAM and one BOT project (Bareilly Almora)) for an enterprise value of about ₹9,006 crore to Highways Investment Trust (KKR). The equity value of the transaction, including cash and earnouts, stands at ₹2,902 crore on an invested equity of ₹1,740 crore. The cash is likely to be used as growth capital for HAM projects bidding, while it would be conservative in BOT project bids.
- Claims under Vivad se Vishwas scheme:** During Q4FY24, PNC received ₹ 297 crore towards Arbitration Award for two projects, Dholpur-Morena of NHAI and Gurgaon-Nuh-Rajasthan border of HSRBDCL. In Q1FY25, PNC Raebareli highways Ltd. received ₹ 117.2 crores from NHAI in April 2024 pursuant to a Settlement Agreement executed with NHAI Vivad se Vishwas secondary scheme. Furthermore, the company's subsidiary PNC Kanpur highways Ltd. has executed a Settlement Agreement with NHAI on 9th May 2024, for ₹ 398.6 crore under the Vivad Se Vishwas scheme which is expected to be received in Q1. **On standalone basis, ₹ 378 crore of the same will flow through in revenues and margins in FY25.**
- Overall roads sector Outlook** – The company indicated that overall road construction activities during FY25 would be lesser and would be in the

range of 11,100 km to 11,500 km (vs. 12349 km in FY24). The anticipated decline compared to FY24 is largely attributed to slowdown in projects awarding process. MoRTH has also announced plans to integrate an additional 6,000 km of high-speed highways into the country's national highways network. On new contract awarding front, the sector witnessed very subdued activity during FY24. Slowdown in new projects awarding activity will have significant negative impact on the industry over the next two years, particularly in achieving the construction targets. However, **the industry is hopeful that bidding and awarding activity will pick up after the conclusion of ongoing general election and large number of projects would be awarded during FY25.**

- **Capex, Debt and Cash position:** During FY24, capex was ~₹ 46 crore and company guided for capex of 100-200 crore in FY25. The balance sheet position continues to remain healthy, with a gross standalone debt of ₹ 382 crore as of FY24, while the cash and bank amount stood at ₹ 713 crore.

Exhibit 1: Quarter Performance

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Total Operating Income	2342.0	2114.6	10.8	1802.7	29.9	Topline performance aided by claims of ₹ 297 crore. Adjusted for the same, revenue was weak at ₹ 2045 crore, down 3.3% YoY
Other Income	10.0	10.5	-4.8	4.2	136.7	
Net Raw material consumed	1539.2	1596.2	-3.6	1350.2	14.0	
Employee benefit expenses	98.4	76.8	28.1	86.4	13.9	
Other Expenses	139.1	160.6	-13.4	126.7	9.8	
EBITDA	565.2	281.0	101.1	239.5	136.0	
EBITDA Margin(%)	24.1	13.3	1085 bps	13.3	1085 bps	Margin was boosted by claims of ₹ 297 crore. Adjusted margins were stable at 13.1%.
Depreciation	26.6	27.9	-4.7	26.1	1.9	
Interest	13.5	14.7	-7.7	17.2	-21.2	
PBT	535.1	249.0	114.9	200.4	167.0	
Taxes	132.8	64.5	105.8	49.3	169.2	
PAT	402.3	184.5	118.1	151.1	166.3	

Source: Company, ICICI Direct Research

Exhibit 2: SoTP Valuation

Entity	₹ crore	Per share	Comment
Construction Business	12,051	470	15x FY26 P/E
BOT & HAM Projects	3,743	146	
Gwalior Bhind	78	3	
Raibereli Jaunpur	140	5	
Narela Industrial Area	35	1	
Kanpur Kabrai	68	3	
Deal Value	2,902	113	Equity value of assets sold
Amount invested in remaining HAM projects	521	20	
Target Price	15,794	616	
Rounded off target price		620	

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Net Sales	7,060.8	7,699.2	8,510.6	9,365.0
Other op. income	-	-	-	-
Other income	38.3	27.8	38.0	52.0
Total Revenues	7,099.1	7,727.0	8,548.6	9,417.0
Raw Material Exp	5,262.4	5,548.5	6,005.0	7,023.8
Employee exp	335.9	355.7	391.5	421.4
Other Expenses	508.7	517.7	672.3	739.8
Total Operating Exp	6,107.0	6,421.8	7,068.8	8,185.0
EBITDA	953.9	1,277.4	1,441.8	1,180.0
Interest	63.8	65.8	45.2	38.8
Depreciation	110.0	103.3	112.3	119.2
PBT	818.4	1,136.1	1,322.3	1,074.0
Total Tax	206.9	286.3	333.2	270.7
Reported PAT	611.5	849.8	989.1	803.4
Adjusted PAT	611.5	627.6	706.3	803.4
EPS (Diluted)	23.8	33.1	38.6	31.3

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

₹ crore	FY23	FY24	FY25E	FY26E
Profit after Tax	611.5	849.8	989.1	803.4
Depreciation	110.0	103.3	112.3	119.2
Other Income	-38.3	-27.8	-38.0	-52.0
CF before WC changes	953.9	1,277.4	1,441.8	1,180.0
Net Inc. in Current Assets	-861.7	-527.4	-91.2	-447.7
Net Inc. in Current Liabilities	-67.2	404.4	205.1	229.7
Net CF from Op. Activities	-181.9	868.1	1,222.4	691.3
(Purchase)/Sale of FA	-55.2	-42.7	-80.0	-80.0
Purchase of Investment	-66.6	-115.7	-370.2	-500.0
Other Income	54.2	38.3	27.8	38.0
Net CF from Inv.Activities	-132.6	-385.1	-542.0	-528.0
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-63.8	-65.8	-45.2	-38.8
Increase/Decrease in Debt	234.2	-67.8	-200.0	-150.0
Dividend Paid	-12.8	-12.8	-12.8	-12.8
Net CF from Fin. Activities	160.3	-143.7	-258.1	-201.6
Net Cash flow	-154.3	339.2	422.4	-38.3
Opening Cash/ Cash Equiv.	527.7	373.4	712.6	1,135.0
Closing Cash/ Cash Equiv.	373.4	712.6	1,135.0	1,096.7

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Liabilities				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	3,890.3	4,730.0	5,706.3	6,496.8
Networth	3,941.6	4,781.3	5,757.6	6,548.1
Secured Loan	450.0	382.1	182.1	32.1
Unsecured Loan	-	-	-	-
Total Debt	450.0	382.1	182.1	32.1
Deferred Tax Liability	-	-	-	-
Total Liabilities	4,391.5	5,163.4	5,939.7	6,580.2
Assets				
Gross Block	1,182.4	1,225.6	1,305.6	1,385.6
Net Block	531.4	471.2	439.0	399.8
Capital WIP	-	-	-	-
Non-current Investments	1,321.5	1,691.7	2,191.7	2,691.7
Current Assets				
Inventories	764.4	765.0	845.6	930.5
Sundry Debtors	1,905.5	1,950.5	1,748.8	1,924.3
Loans and Advances	818.7	518.9	1,399.0	1,539.5
Other Current Assets	352.4	1,134.0	466.3	513.2
Cash	373.4	712.6	1,135.0	1,096.7
Total Current Assets	4,214.5	5,081.1	5,594.7	6,004.2
Creditors	679.0	933.4	699.5	769.7
Provisions	34.6	24.1	26.6	29.3
Other Current Liabilities	352.1	473.6	629.6	692.8
Other Long Term Liabilities	613.1	652.2	932.7	1,026.3
Total Current Liabilities	1,678.9	2,083.3	2,288.4	2,518.1
Net Current Assets	2,535.5	2,997.8	3,306.4	3,486.1
Total Assets	4,391.5	5,163.4	5,939.7	6,580.2

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per Share Data				
EPS (Fully Diluted)	23.8	33.1	38.6	31.3
Cash EPS	28.1	37.2	42.9	36.0
BV	153.6	186.4	224.4	255.2
Dividend per share	0.5	0.5	0.5	0.5
Operating Ratios				
EBITDA / Net Sales	13.5	16.6	16.9	12.6
PAT / Net Sales	8.7	8.2	8.3	8.6
Inventory Days	39.5	36.3	36.3	36.3
Debtor Days	98.5	92.5	75.0	75.0
Creditor Days	35.1	44.2	30.0	30.0
Return Ratios				
RoE	15.5	13.1	12.3	12.3
RoCE	20.1	23.3	23.0	16.9
RoIC	21.0	26.4	27.7	19.3
Valuation Ratios				
EV / EBITDA	13.9	10.1	8.5	10.3
P/E	21.6	15.5	13.4	16.4
EV / Net Sales	1.9	1.7	1.4	1.3
Market Cap / Sales	1.9	1.7	1.6	1.4
Price to Book Value	3.4	2.8	2.3	2.0
Turnover Ratios				
Asset turnover	1.6	1.5	1.4	1.4
Gross Block Turnover	5.9	6.2	6.5	6.7
Solvency Ratios				
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	2.3	2.1	1.9	1.9
Debt / EBITDA	0.5	0.3	0.1	0.0
Quick Ratio	1.8	1.7	1.6	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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