

October 21, 2024

MoRTH disqualification to weigh on growth visibility...

About the stock: PNC Infratech has established itself as a strong executor in roads and water infra segments.

- Reported 20% revenue CAGR in FY19-24; with robust return ratios

Event: PNC Infratech Limited, along with its subsidiaries PNC Khajuraho Highways Private Limited and PNC Bundelkhand Highways Private Limited, has been disqualified from participating in any tender process by the Ministry of Road Transport & Highways (MoRTH) for a period of one year, starting from October 18, 2024. This decision stems from an investigation involving an FIR filed by the Central Bureau of Investigation (CBI) in June 2024. After a personal hearing and submission of evidence by PNC Infratech and its subsidiaries, MoRTH passed the disqualification order, citing concerns over violations related to the FIR.

Investment Rationale:

- No impact on existing projects; Bidding universe, however, shrinks for next one year:** The management indicated that they do not expect any material impact on the ongoing development, operations and maintenance (O&M) activities of the company and its subsidiaries including the two SPV's on account of the aforesaid order of MoRTH. Furthermore, they also believe that the 5 HAM projects awaiting appointed dates should not be impacted by the disqualification order. It indicated that it still has scope for pursuing business with other Ministries and state governments, alongwith non-Roads segments like Railways/Water for future orders. However, we believe that without MoRTH/NHAI, the overall bidding universe for PNC has shrunk.
- Order book Decent; Revenue growth hinges on further orders:** The orderbook as of Q2FY25 stood at ₹ 18730 crore, 2.5x book to bill. After bagging ₹ 4630 crore order in Q1, the company had guided for further order inflows of ₹ 8000 crore in FY25. It bagged a project worth ₹ 2040 crore from CIDCO in Q2. We, now, conservatively bake in revenue CAGR of ~5% over FY24-27E, On the margins front, given the competitive intensity, we have baked in adjusted EBITDA margins of 12.5%/12.6%/12.8% in FY25/FY26/FY27, respectively.

Rating and Target Price

- While, asset monetisation and claims, incremental cash will free up capital and drive scalability, **For orders, the company will have to depend on state highways and non-road segments for order inflows, wherein risk of likely aggressive bidding and/or not winning enough to meet FY26/FY27 growth, remain**
- We, now, **downgrade PNC to HOLD from BUY, earlier and assign TP of ₹ 400 on SoTP basis (vs. ₹ 620, earlier), now valuing the construction business at 10x FY26 vs. 15x, earlier.**



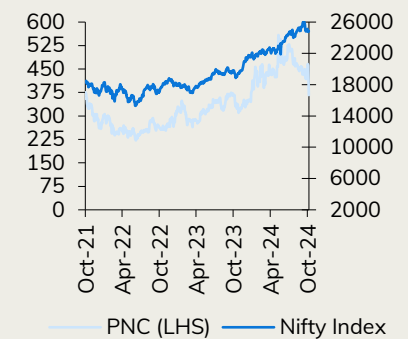
Particulars

Particular	₹ crore
Market Cap	9,415
Debt - FY24	382
Cash - FY24	713
EV (₹ crore)	9,084
52 week H/L (₹)	574/ 310
Equity capital	51.3
Face value (₹)	2.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	56.1	56.1	56.1	56.1
DII	28.1	27.2	27.0	26.4
FII	10.6	11.0	11.9	10.8
Other	5.3	5.7	5.1	6.7

Price Chart



Key risks

- Lower order inflows
- Quicker resolution to the disqualification issue

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Hammaad Ahmed Ulde
hammaad.ulde@icicisecurities.com

Key Financial Summary

₹ crore	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	FY27E	3 yr CAGR (FY24-27E)
Net Sales	6,306	7,061	7,699	20.0%	7,438	8,083	8,950	5.1%
EBITDA	787	954	1,277	NC	1,308	1,018	1,146	NC
EBITDA Margin (%)	12.5	13.5	16.6		17.6	12.6	12.8	
Reported PAT	448	611	850		890	685	785	
Adjusted PAT	448	611	628	14.6%	608	685	785	7.7%
EPS (₹)	17.5	23.8	33.1		34.7	26.7	30.6	
P/E (x)	21.0	15.4	11.1		10.6	13.7	12.0	
EV/EBITDA (x)	11.6	10.0	7.1		6.3	8.1	7.1	
RoNW (%)	13.4	15.5	13.1		10.7	10.8	11.0	
RoCE (%)	20.0	20.1	23.3		21.1	14.9	15.3	

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

Other Highlights

- The company is **still evaluating legal recourse, to contest against the order**. However, we believe this could be a long-drawn process.
- We also note that the company believes the current development should not impact Asset Monetization. **Nonetheless, among the assets to be monetised, it also includes assets under PNC Khajuraho Highways Private Limited and PNC Bundelkhand Highways Private Limited. Thus, we will monitor any update on the same.**
- **During FY25YTD**, the company has secured three new orders worth ₹6670 crore as of October 2024, two of them from MSRDC worth ₹4630 crore and one from CIDCO worth ₹2040 crore. **As of now, the company has not changed its FY25 order inflow guidance of ₹8000 crore. However, it has stated that any material changes pertaining to future guidance shall be intimated in its Q2 financial results conference.**
- The company stated that **the 5 HAM projects awaiting appointed dates should not be impacted by the disqualification order**. The company also stated that the projects awarded by NHAI, for which work is yet to commence would not be impacted. The company indicated that payments due from NHAI/MoRTH regarding GST dues towards the two SPV's should not be impacted.

Exhibit 1: SoTP Valuation

Entity	₹ crore	Per share	Comment
Construction Business	6,854	267	10x FY26 P/E
BOT & HAM Projects	3,436	134	
Gwalior Bhind	78	3	
Raibereli Jaunpur	140	5	
Narela Industrial Area	35	1	
Kanpur Kabrai	68	3	
Deal Value	2,500	97	Equity value of assets sold adjusted for two assets now at 1x P/B
Amount invested in remaining HAM projects	616	24	
Target Price	10,290	401	
Rounded off target price		400	

Source: ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Net Sales	7,699.2	7,437.6	8,082.6	8,950.2
Other op. income	-	-	-	-
Other income	27.8	38.0	52.0	52.0
Total Revenues	7,727.0	7,475.6	8,134.6	9,002.2
Raw Material Exp	5,548.5	5,200.2	6,062.0	6,712.6
Employee exp	355.7	342.1	363.7	402.8
Other Expenses	517.7	587.6	638.5	689.2
Total Operating Exp	6,421.8	6,129.9	7,064.2	7,804.6
EBITDA	1,277.4	1,307.7	1,018.4	1,145.6
Interest	65.8	43.1	35.0	22.6
Depreciation	103.3	112.3	119.2	126.0
PBT	1,136.1	1,190.3	916.3	1,049.0
Total Tax	286.3	300.0	230.9	264.4
Reported PAT	849.8	890.4	685.4	784.7
Adjusted PAT	627.6	607.6	685.4	784.7
EPS (Diluted)	33.1	34.7	26.7	30.6

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

₹ crore	FY24	FY25E	FY26E	FY27E
Profit after Tax	849.8	890.4	685.4	784.7
Depreciation	103.3	112.3	119.2	126.0
Other Income	-27.8	-38.0	-52.0	-52.0
CF before WC changes	1,277.4	1,307.7	1,018.4	1,145.6
Net Inc. in Current Assets	-527.4	471.0	-338.0	-454.6
Net Inc. in Current Liabilities	404.4	-83.5	173.4	233.3
Net CF from Op. Activities	868.1	1,395.3	622.9	659.9
(Purchase)/Sale of FA	-42.7	-80.0	-80.0	-80.0
Purchase of Investment	-115.7	-370.2	-500.0	-500.0
Other Income	38.3	27.8	38.0	52.0
Net CF from Inv.Activities	-385.1	-542.0	-528.0	-528.0
Proceeds from share capital	0.0	0.0	0.0	0.0
Interest Paid	-65.8	-43.1	-35.0	-22.6
Increase/Decrease in Debt	-67.8	-200.0	-150.0	-150.0
Dividend Paid	-12.8	-12.8	-12.8	-12.8
Net CF from Fin. Activities	-143.7	-255.9	-197.8	-185.4
Net Cash flow	339.2	597.4	-102.8	-53.5
Opening Cash/ Cash Equiv.	373.4	712.6	1,310.0	1,207.2
Closing Cash/ Cash Equiv.	712.6	1,310.0	1,207.2	1,153.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Liabilities				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	4,730.0	5,607.5	6,280.1	7,051.9
Networth	4,781.3	5,658.9	6,331.4	7,103.3
Secured Loan	382.1	182.1	32.1	(117.9)
Unsecured Loan	-	-	-	-
Total Debt	382.1	182.1	32.1	(117.9)
Deferred Tax Liability	-	-	-	-
Total Liabilities	5,163.4	5,841.0	6,363.5	6,985.4
Assets				
Gross Block	1,225.6	1,305.6	1,385.6	1,465.6
Net Block	471.2	439.0	399.8	353.8
Capital WIP	-	-	-	-
Non-current Investments	1,691.7	2,191.7	2,691.7	3,191.7
Current Assets				
Inventories	765.0	739.0	803.1	889.3
Sundry Debtors	1,950.5	1,528.3	1,660.8	1,839.1
Loans and Advances	518.9	1,222.6	1,328.6	1,471.3
Other Current Assets	1,134.0	407.5	442.9	490.4
Cash	712.6	1,310.0	1,207.2	1,153.7
Total Current Assets	5,081.1	5,207.5	5,442.7	5,843.8
Creditors	933.4	611.3	664.3	735.6
Provisions	24.1	23.3	25.3	28.0
Other Current Liabilities	473.6	550.2	597.9	662.1
Other Long Term Liabilities	652.2	815.1	885.8	980.8
Total Current Liabilities	2,083.3	1,999.9	2,173.3	2,406.6
Net Current Assets	2,997.8	3,207.7	3,269.4	3,437.2
Total Assets	5,163.4	5,841.0	6,363.5	6,985.4

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Per Share Data				
EPS (Fully Diluted)	33.1	34.7	26.7	30.6
Cash EPS	37.2	39.1	31.4	35.5
BV	186.4	220.6	246.8	276.9
Dividend per share	0.5	0.5	0.5	0.5
Operating Ratios				
EBITDA / Net Sales	16.6	17.6	12.6	12.8
PAT / Net Sales	8.2	8.2	8.5	8.8
Inventory Days	36.3	36.3	36.3	36.3
Debtor Days	92.5	75.0	75.0	75.0
Creditor Days	44.2	30.0	30.0	30.0
Return Ratios				
RoE	13.1	10.7	10.8	11.0
RoCE	23.3	21.1	14.9	15.3
RoIC	26.4	26.4	17.4	17.5
Valuation Ratios				
EV / EBITDA	7.1	6.3	8.1	7.1
P/E	11.1	10.6	13.7	12.0
EV / Net Sales	1.2	1.1	1.0	0.9
Market Cap / Sales	1.2	1.3	1.2	1.1
Price to Book Value	2.0	1.7	1.5	1.3
Turnover Ratios				
Asset turnover	1.5	1.3	1.3	1.3
Gross Block Turnover	6.2	5.7	5.8	6.1
Solvency Ratios				
Debt / Equity	0.1	0.0	0.0	(0.0)
Current Ratio	2.1	1.9	1.9	1.9
Debt / EBITDA	0.3	0.1	0.0	(0.1)
Quick Ratio	1.7	1.6	1.6	1.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA (Finance), Hammaad Ahmed Ulde, MMS (Finance), Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.