

Construction Sector

13 March, 2023

India Infrastructure Growth Story

India's road network is the second largest in the world after China. In the next five years, the Ministry of Road Transport and Highways (MoRTH) intends to construct ~60,000 Kms of roads at a rate of ~40 Kms per day. The current trends in road construction and awarding also provide reason for hope about the achievement of such lofty goals. The Bharatmala Pariyojana is still the primary focus area, but additional emphasis is being placed on (1) multimodal integration (2) road safety (3) increasing the use of Information Technology (IT) applications (4) augmenting existing funding sources and (5) undertaking environmentally friendly initiatives. Moreover, improved passenger amenities and enhanced efficiency in the logistics sector are significant factors to consider. We also expect pre-election spending (prior to 2024 Lok Sabha polls) to spur the pace of infrastructure development besides resulting in fast-tracking of road/highway construction, benefitting companies in the medium to long term.

While the Build Operate Transfer (BOT) (Toll) and BOT (Annuity) projects had attracted many participants initially, the momentum rapidly declined after 2012, owing to a variety of reasons such as developers' aggressive bidding and the consequent over-leveraged balance sheets, flaws in project preparatory efforts and land acquisition challenges. Once interest in BOT projects dwindled, the Hybrid Annuity Model (HAM) was introduced to re-vive PPP in the road sector. HAM was focused on risk distribution among partners. Moreover, with the introduction of the Toll-Operate-Transfer (TOT) model, monetisation of operational assets has lately gathered traction. Additional asset monetisation methods are also being considered, including the use of Infrastructure Investment Trusts (InvITs) and the securitisation of toll income. MoRTH plans to complete 60,000 Kms of NHs in the next five years at a pace of 40 Km/day. Assuming average construction cost of ~Rs350mn/Km (including land acquisition costs) and assuming a conservative 4% inflation rate, the total funding requirement over the next five years is estimated at~Rs21 lakh crore, with an average annual funding requirement of ~Rs4.5 lakh crore. Moreover, various challenges have plagued India's road & highways industry over the years. Land acquisition, simplified operations, funding, operation & maintenance (O&M) and re-activation of dormant enterprises are a few of them. To address these numerous concerns, the government has launched several measures. These include operation-related initiatives such as process streamlining and various technological initiatives to improve operational efficiencies; measures such as equity divestment, premium deferment, and one-time fund infusion to revive dormant projects; amicable dispute resolution through the formation of the Society for Affordable Redressal of Disputes (SAROD) and other initiatives such as continuous evolution of the PPP model, developer friendly reforms for HAM projects and safety related initiatives. On the flip side, road development expenditures are rising and money is becoming scarcer. Rising expenses, limited access to funding and diminishing private sector interest in PPP projects are some of the other major thorny issues.

Connectivity empowers economies. The Pradhan Mantri Gram Sadak Yojana, industrial corridors, dedicated freight corridors, Bharatmala and Sagarmala projects, Jal Marg Vikas and UDAN schemes have all boosted physical connectivity in India over the past few years.

Our preferred picks in the sector are PNC Infratech and KNR Construction.

Company Name (Rs mn)	Rating	Market Cap (Rs bn)	CMP* (Rs)	Target Price (Rs)	Upside / Downside (%)	Revenue		EBITDA		EPS (Rs)		P/E (x)	
						FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Ashoka Buildcon	BUY	22.4	80	128	60%	68,941	77,214	6,205	7,721	15.3	19.3	5.2	4.1
KNR Construction	BUY	76.4	272	361	33%	41,733	46,741	7,929	8,647	18.1	20.2	15.0	13.5
PNC Infratech	BUY	7.4	290	375	29%	82,297	92,584	10,699	11,573	22.1	24.7	13.2	11.8

Source: Companies, Nirmal Bang Institutional Equities Research; Note - * = Closing Price as on 10 March 2023

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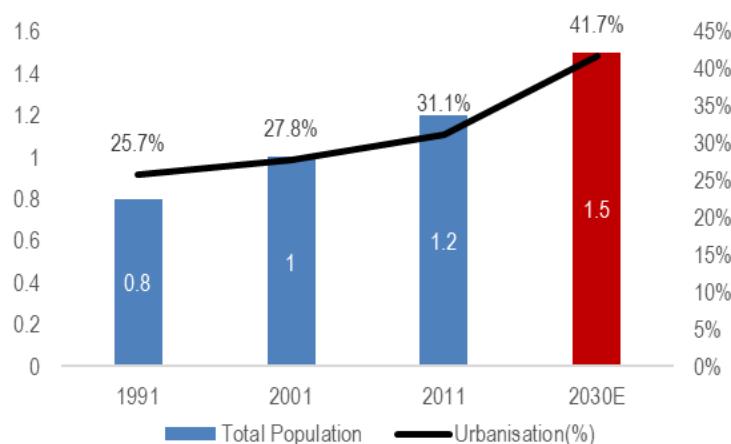
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National Infrastructure Pipeline (NIP)

- **Macro Viewpoint**

- **Global trends in Infrastructure spending:** According to the 2017 Global Infrastructure Forecast issued by Oxford Economics, the expected worldwide infrastructure investment demand between 2016 and 2040 is US\$94 trillion. Almost half of these investments are needed in Asia alone (mainly China, India and Japan), with roads and electricity sectors accounting for 67% of these demand followed by telecommunications, trains and water sectors. Another research estimates that although infrastructure funding demand is expanding at ~US\$4 trillion per year, infrastructure supply is growing at only ~US\$2.7 trillion annually, resulting in a US\$1-1.5 trillion annual shortfall.
- **India 2030: Demographic changes and infrastructure needs**
 - Economic expansion is usually accompanied by underlying population shifts. There will be an increase in urbanisation and peak in working age population.
 - Rising urbanisation: According to estimates from the World Bank, India's population grew at a CAGR of 1.2% from 2011 to 2017, and is projected to reach 1.52 billion by 2030. In the last decade, India's urban population has grown at a pace of 2.4% each year. Around 42% of India's population will reside in urban areas by 2030, up from the present 31%.

Exhibit 1: Total population (bn) and urbanization (%) trajectory



Source: Report of the Task Force NIP, Nirmal Bang Institutional Equities Research

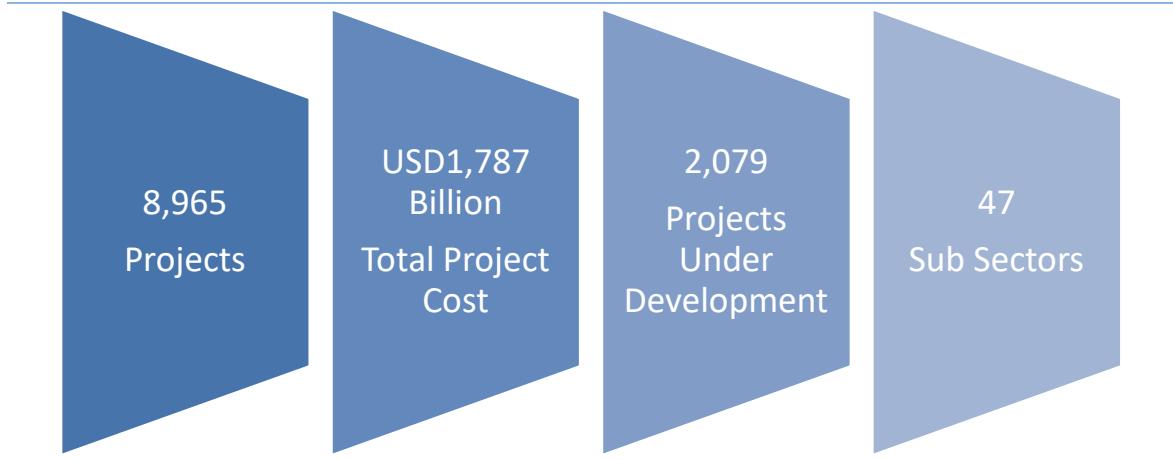
- **Introduction**

- NIP is a well-thought-out government initiative that aims to provide individuals access to top-notch infrastructure. To aid the nation's infrastructure development, it was launched in December 2020. The highest allocation was towards the energy sector, while allocation to the road sector in NIP was only ~Rs20.33 trillion (18%). A total of 6,835 projects were declared when NIP was commenced, which was subsequently expanded to 7,400 projects. 217 projects totaling US\$1.10 trillion have been completed as of February 2021.

- **Significance of NIP**

- NIP is a step in achieving the government's aim of forming partnerships via efficient public-private collaboration models. Rapidly increasing urbanisation, a larger working-age population, move to a services-based economy and climate change are some of the causes that would need a boost to India's infrastructure sector, underscoring the importance of NIP.

Exhibit 2: Snapshot of NIP

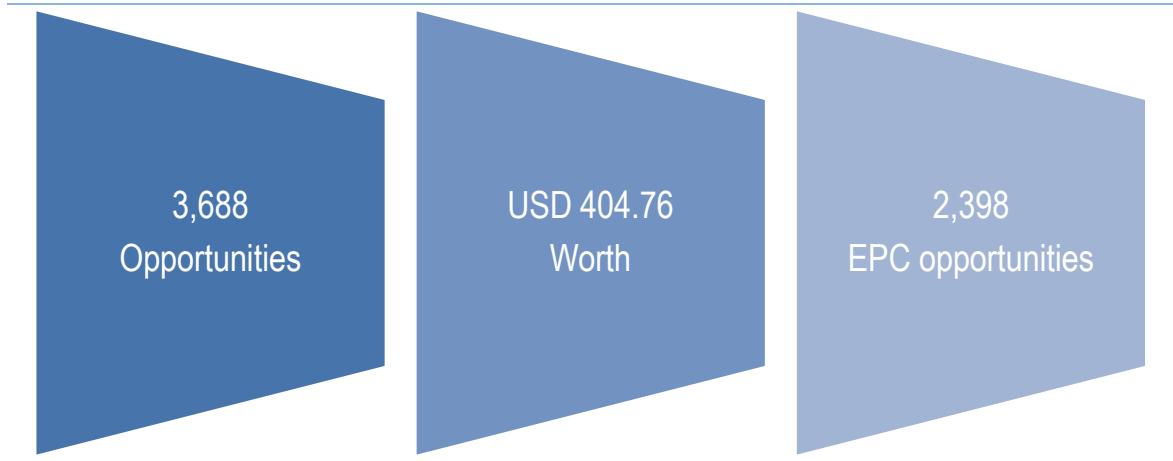


Source: indianinvestmentgrid.gov.in, Nirmal Bang Institutional Equities Research

- **Transport outlook**

- Among all the infrastructure sectors in India, the transport industry is predicted to expand at a CAGR of 5.9%, making it the sector with the quickest rate of expansion. Infrastructure for transportation comprises well-maintained roads & highways, a vast railway network, quickly expanding aviation infrastructure and burgeoning ports, shipping, & interior waterways.
- In terms of converting these possibilities into reality, the bulk of the projects (80%) would be carried out using EPC and PPP modes. Majority of these projects, totaling Rs33 trillion, are for roads & bridges, and they will be carried out using EPC and PPP modes.

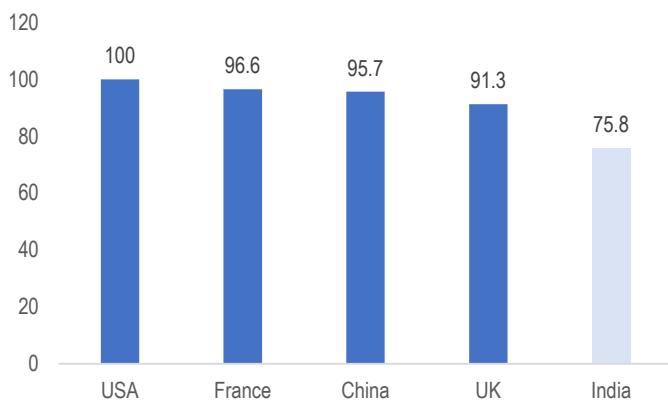
Exhibit 3: Roads and Highways



Source: indianinvestmentgrid.gov.in, Nirmal Bang Institutional Equities Research

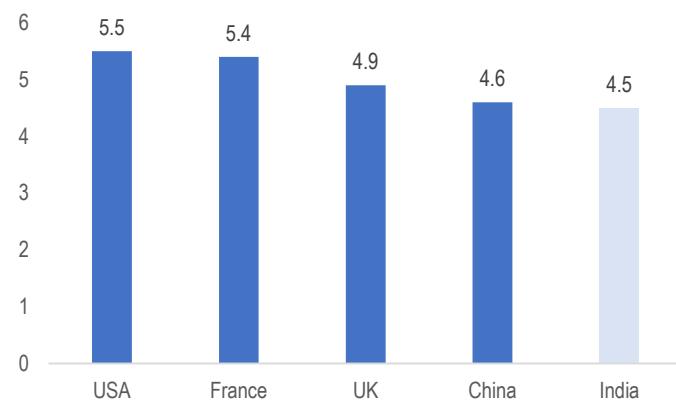
- **Infrastructure deficit in roads**

- In 2018, roads had high modal share for both freight as well as passenger transportation at 85% and 59%, respectively. As most passenger and freight transportation occurs on roadways, high-quality and end-to-end connection is crucial.
- India's ranking on the World Economic Forum's Road Connectivity Index, which evaluates the average speed and straightness of highways linking the nation's 15 largest cities, is a mere 76%.
- To improve connectivity and economic activity in remote areas, it is necessary to improve the quality of rural & border roads and make them all-weather. This clearly shows that there is room for improvement in the infrastructure space and that there are opportunities for infrastructure players to take advantage of these underlying opportunities.

Exhibit 4: Road connectivity score (1-100)


Source: WEF Global Competitiveness Report, Transport Competitiveness Report

The scale ranges from 0 to 100 (excellent). This Index, developed by the World Economic Forum, comprises two elements: (1) a measure of the average speed of a driving itinerary connecting the 10 or more largest cities in an economy accounting for at least 15% of the economy's total population; and (2) a measure of road straightness.

Exhibit 5: Quality of road infrastructure score (1-7)


Source: WEF Global Competitiveness Report, Transport Competitiveness Report

Response to the survey question "In your country, what is the quality (extensiveness and condition) of road infrastructure?" [1 = extremely poor—among the worst in the world; 7 = extremely good—among the best in the world]

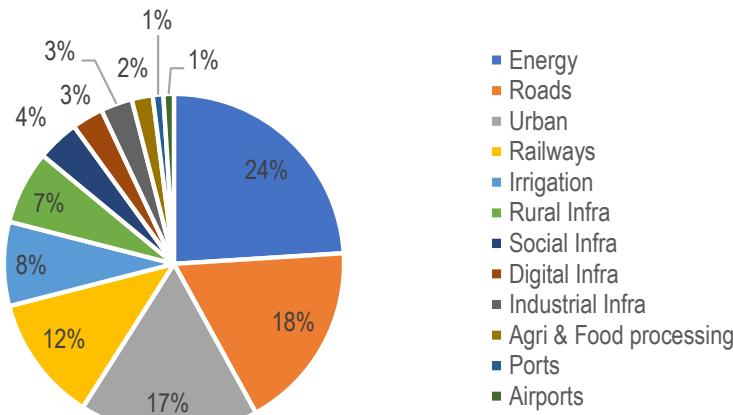
- **Vision 2025 for the roads sector**

- According to the economic survey of 2021-2022, for India to reach a GDP of US\$5 trillion by 2024-2025, it must spend US\$1.4 trillion on infrastructure development over the same period. India spent US\$1.1 trillion on infrastructure development from FY2008 to FY2017. Considering the lofty objectives, increasing engagement from the private sector would undoubtedly aid in accomplishing the government's objectives. This would definitely bode well for infrastructure players, providing the requisite revenue visibility.

Exhibit 6: NIP road project summary

Category	No. of Projects	Length (km)	CAPEX over FY20-FY25 (Rs Lakh crore)
National Highways	1,815	87,162	12,80,638
Expressways	5	2,142	1,01,742
Total	1,820	89,304	13,82,380

Source: Report of the Task Force NIP, Nirmal Bang Institutional Equities Research

Exhibit 7: Sector-wise break up of capex of Rs111 lakh crore planned for FY20-FY25


Source: Report of the Task Force NIP, Nirmal Bang Institutional Equities Research

Industry Insight and Outlook

- India's road network remains the second largest in the world at 5.89 million kms. Roads move roughly 64.5% of all commodities and 90% of all passenger transportation in India is done through its vast road network. Private sector expenditure in building national roadways is estimated to double to US\$1.5 trillion between fiscal years 2021 and 2025 compared to the preceding five years.
- Execution of the Bharatmala Pariyojna would undoubtedly play a significant role in boosting India's infrastructure. It is an overarching initiative of the Indian government for the construction/upgrading of national highways. The first phase of the scheme was for 34,800 kms spread over five years (2017-2018 to 2021-2022) at an estimated cost of Rs53.5trn.
- Delayed start of Phase 1:** The original completion timeline for phase 1 of the Bharatmala project was 2022. But, it has been pushed back four years as a result of cost over-runs, site acquisition and the covid-19 pandemic. The first phase is anticipated to be finished by the end of FY26, if contracts are granted by 2023-end. In addition, the project's price tag has climbed to Rs8,500 trn. The central government is eager to launch Phase 2 in 2024. In this phase, the project will entirely focus on the interconnection of multimodal logistics parks and ensuring synergy with India's interior waterways.

Exhibit 8: Phase-I of Bharatmala Pariyojana

Scheme	Length (km)	Cost (Rs. crore)
Economic Corridors	9,000	1,20,000
Inter-Corridors & feeder roads	6,000	80,000
National Corridor Efficiency improvement	5,000	1,00,000
Border & International connectivity roads	2,000	25,000
Coastal & port connectivity roads	2,000	20,000
Expressways	800	40,000
Total	24,800	3,85,000

Source: MoRTH, Nirmal Bang Institutional Equities Research

Budget Highlights- Expect bid pipeline to remain strong

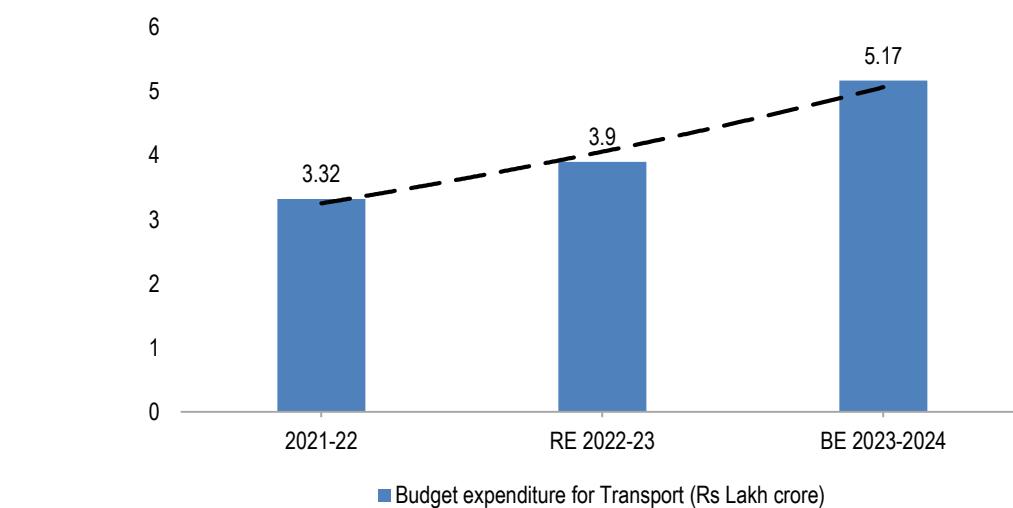
- The central government increased funding for MoRTH by 36% to ~Rs2.7 lakh crore for FY2023-2024. We believe that increased financial allocations were required to assist the ministry in meeting the 25,000 km road building objective set out in the 2022-2023 budget, considering the growing interest expenditure and rising land acquisition costs. The government had planned to build 13,000 Kms of roadway in FY23, but bad weather conditions have slowed road development. In FY23, MoRTH expects to finish 11,000 Kms of national roads.
- Due to rising borrowings over the past several years, the NHAI has a substantial financial load. On the recommendation of various committees, the Government has enhanced the NHAI's budgetary allocation and decreased its market borrowing requirements. Yet, the current debt must be paid off. In FY24, 9% of the ministry's budget will be spent to pay off debt.

Exhibit 9: Budget allocation for MoRTH (Rs Cr)

	Actual 2021-22	RE 2022-23	BE 2023-24	Change (BE over RE)
NHAI	57,081	1,41,606	1,62,207	14.5%
Roads and Bridges	66,237	74,984	1,07,713	43.6%
Total	1,23,318	2,16,590	2,69,920	24.6%

Source: Budget at glance, Nirmal Bang Institutional Equities Research

Exhibit 10: Budgeted expenditure for transport (56% increase over FY22)



Source: Budget at glance, Nirmal Bang Institutional Equities Research

Exhibit 11: Outlay on major schemes (Rs Cr)

	2021-2022	2022-2023		2023-2024	
		Actual	BE	RE	BE
NHAI	57,081	1,34,015	1,41,606	1,62,207	
Road Works	66,237	64,568	74,984	1,07,713	
Road Safety Works - Road Over/Under Bridges	4,225	6,500	6,000	7,400	
North East Special Infrastructure Development Scheme	790	1,419	1,233	2,491	

Source- Budget documents, Nirmal Bang Institutional Equities Research

Exhibit 12: NHAI cost/km

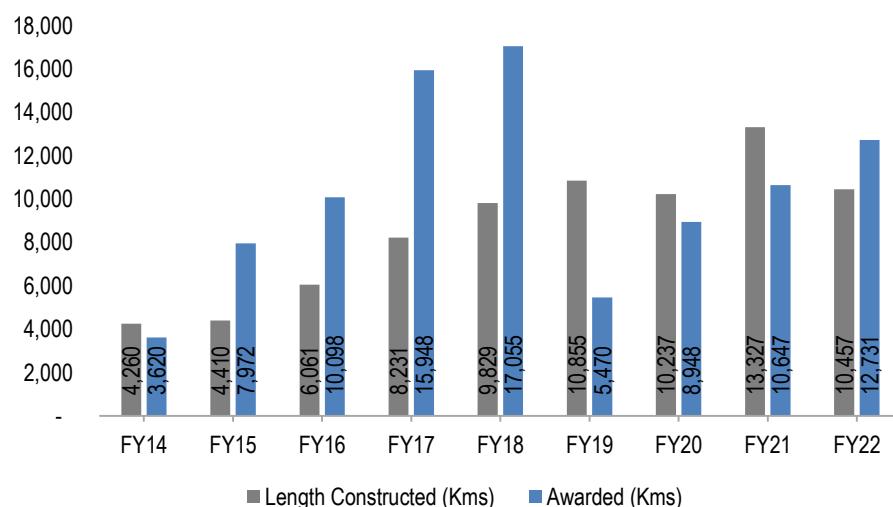
Outlay (Rs crores)	2021-2022		2022-2023		2023-2024	
	Actual	BE	RE	BE	RE	BE
NHAI	57,081	1,34,015	1,41,606	1,62,207		
NHAI cost/Km	5.5	11.2	11.8	16.9		

Source- Budget documents, Nirmal Bang Institutional Equities Research

Road construction progress

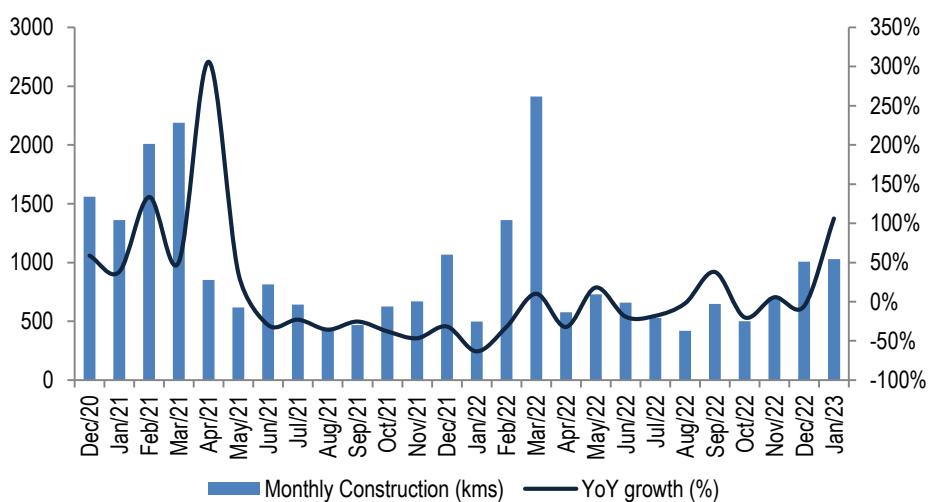
The Government introduced the HAM model and the NHAI began awarding projects using this in January 2016 to lure private players in the PPP model. The NHAI and MoRTH awarded 127 projects totaling 12,731 km in FY22. Execution was slower throughout FY22 due to labour scarcity, delayed payments from the government and other financing challenges. By granting additional roadway projects nationwide, the government aims to boost road construction. A total of 7,263 km of roadways have been granted by the NHAI as of December 31, 2022, according to the most recent statistics from MoRTH, an increase of 17.5% over the 6,185 km given during the same time in FY22. The government would have taken conscious efforts to increase the road construction in the last three months of FY23 (January through March 2023) in order to come close to meeting the annual objective. We also believe as we enter the pre-election period, Government would fast track the awarding of projects which would bode well for the construction players and further strengthen the orderbook run rate of the companies.

Exhibit 13: Historical road construction and awarding



Source: NHAI, Nirmal Bang Institutional Equities Research

Exhibit 14: Monthly construction trend



Source: NHAI, Nirmal Bang Institutional Equities Research

Regulatory changes in HAM model:

- **O&M cost as a fixed percentage of Bid Project Cost (BPC)**
 - O&M cost is an important component of HAM projects as future annuity payments depend on proper maintenance of the road and failure to do so poses a risk for all the parties involved and hampers the quality of the project.
 - For the sanity and viability of HAM projects, MoRTH in its [circular dated 23 May 2022](#) scrapped quoting O&M cost and the projects are now being awarded on the basis of BPC.
- **NHAI mulling a proposal to reduce grant during the construction period**
 - The NHAI has been mulling a proposal to cut upfront payment to highway developers during the construction period to 20% from the current level of 40% to roll out a greater number of projects since 2022. The change, if approved, will boost private investment in the road sector as developers will put in more funds even during the construction period.

Company Section

Ashoka Buildcon Ltd

13 March, 2023

Reuters: ABDL.NS; Bloomberg: ASBL:IN

Asset monetization to potentially un-lock growth

ASBL had previously signed a share purchase agreement (SPA) to sell 5 BOT projects to a company affiliated with the KKR group and 1 BOT project to the National Investment and Infrastructure Fund Ltd (NIIF). This was done in order for ASBL to considerably decrease its exposure to the asset business. Both of these transactions are anticipated to come to a successful conclusion in the near future, and the management anticipates receiving the funds from these transactions in the second quarter of fiscal year 24, which would contribute to the reduction of the project's debt of Rs28.3 billion. With a closing orderbook of Rs191 billion, we think that the EPC business outlook will continue to be positive. Further asset monetization is anticipated to result in a major improvement in the balance sheet, which will be a powerful rerating driver for ASBL. With the disposal of six of its holdings, ASBL will be in possession of 10 HAM projects, one BOT (toll) project, three BOT (annuity) projects, and one CGD enterprise. Of these, the sale of one BOT (toll) project (Jaora – Naigaon) is in its final stages and is anticipated to come to an end shortly (2QFY24), at which point it would bring in Rs4 billion. The corporation is contemplating either selling the HAM portfolio to investors or establishing an InVIT for the purpose of purchasing the same. After the monetization of ASBL's assets, we anticipate that the company's balance sheet will become much more streamlined, which will lead to improved return ratios and maybe a reevaluation of the company's value. Key negative risks include an overcommitment to capital-intensive projects, a delay in the process of asset monetization, aggressive bidding for road projects in which competition is stronger, and rising commodity prices.

Integrated business model: With a comprehensive portfolio of EPC, BOT, and HAM projects, Ashoka Buildcon (ABL) is principally involved in the building of roads and bridges. In addition to road building, ABL has an established presence in several infrastructural sectors, including electricity transmission, railroads, and city gas distribution. ABL has an integrated business strategy and excellent in-house execution skills, allowing it to maintain control over time and cost – the two most important aspects of the road development industry. Due to their incapacity to regulate these crucial aspects, a number of industry participants have in the past experienced considerable pressure on the finances and profitability of their projects. Even in the present day, there are susceptible developers that lack an integrated business strategy and rely on contractors for building operations. Thus, we feel those players (read: ABL) with an integrated business strategy are in a stronger position.

According to the economic survey of 2021-22, for India to reach a GDP of \$5 trillion by 2024-25, it must spend \$1.4 trillion on infrastructure over these years. India spent USD1.1 trillion in infrastructure from FY2008 to FY2017. Considering the lofty objective, increasing engagement from the business sector would undoubtedly aid in accomplishing the government's objective. This would likely bode well for infrastructure participants, enhancing the long-term income visibility for ASBL as well.

Seasoned player in the road: ABL has been in the road business for over 15 years and has worked on 59 road and bridge projects. ABL was one of the first companies to work on Build-Operate-Transfer (BOT) projects. It won its first BOT project, the Dhule bypass in Maharashtra (TPC: '5.8cr), in 1997 and finished building it in the same fiscal year. Over the next few years, ABL's performance should be defined by a diverse order book, good execution skills, an expected pick-up in execution, and a focus on debt reduction and working capital.

Valuation: We expect Revenue and EBIDTA to grow at CAGRs of 19% and 15%, respectively, from FY22 to FY25E. This is because execution is better than expected and the orderbook is strong. We think that the EBIDTA margin will stay stable between 9% and 10%. We are starting to cover Ashoka Buildcon again, and our target price is Rs128.

Financial Summary (Standalone)

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	38,175	45,915	59,689	68,941	77,214
EBITDA	5,195	5,025	5,670	6,205	7,721
EBITDA Margin (%)	13.6	10.9	9.5	9.0	10.0
Adj. PAT	4,081	(3,086)	3,671	4,281	5,418
EPS (Rs)	14.5	(11.0)	13.1	15.3	19.3
EPS Growth (%)	5.4	NA	NA	16.6	26.6
PE(x)	5.5	NA	6.1	5.2	4.1
Dividend Yield (%)	0.5	0.5	0.5	1.5	1.5
EV/EBITDA (x)	4.3	4.6	3.6	3.4	2.5
RoE (%)	14.6	(10.8)	12.7	13.1	14.4
RoCE (%)	12.9	14.3	11.7	11.7	12.7

Source: Company, Nirmal Bang Institutional Equities Research

BUY
Sector: Construction

CMP: Rs80

Target Price: Rs128

Upside: 60%

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Key Data

Current Shares O/S (man)	280.7
Mkt Cap (Rsbn/US\$mn)	22.5/274.2
52 Wk H / L (Rs)	96/69
Daily Vol. (3M NSE Avg.)	1,348,047

Share holding (%)	Dec-22	Sep-22	Jun-22
Promoters	54.5	54.5	54.5
Public	45.5	45.5	45.5
Others	-	-	-

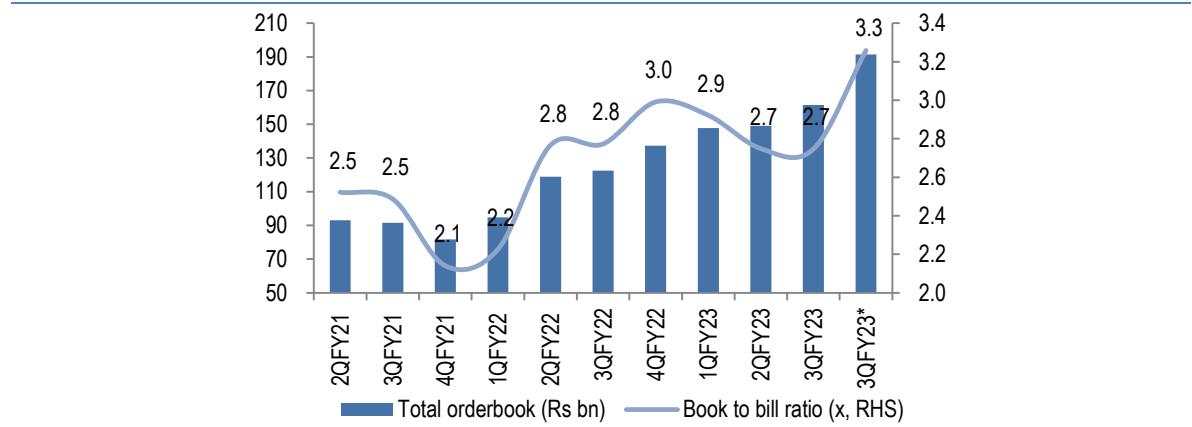
One Year Indexed Stock Performance



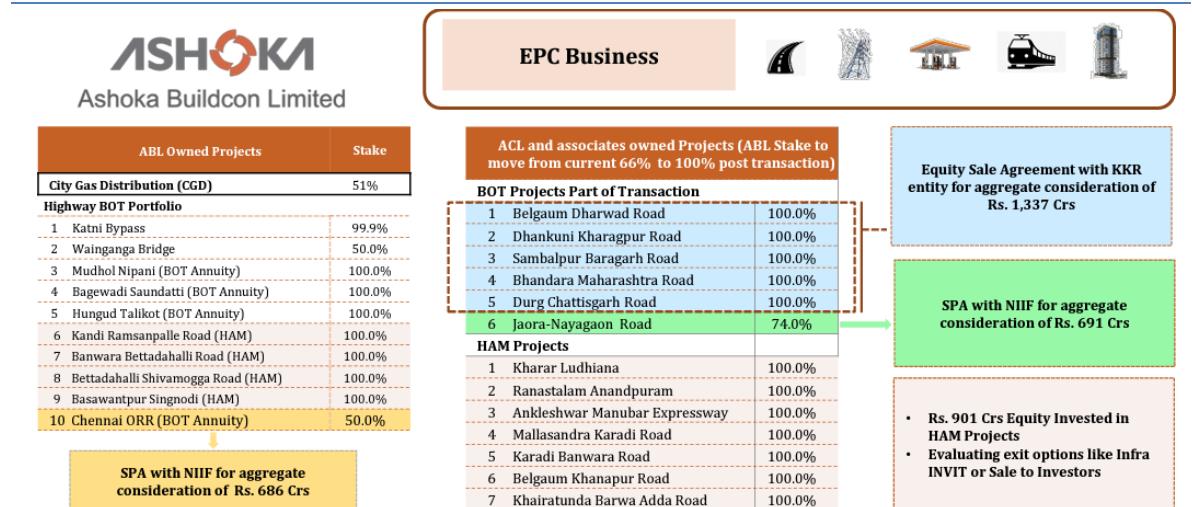
Price Performance (%)

	1 M	6 M	1 Yr
Ashoka Buildcon	0.4	(9.5)	(12.0)
Nifty Index	(2.0)	(3.6)	4.7

Source: Bloomberg

Exhibit 1: Book to bill ratio at 2.8x for 3QFY23


Source: Company, Nirmal Bang Institutional Equities Research, *Includes new orders

Exhibit 2: ABL -Business Structure –Pre & Post Transaction


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Current Order backlog of Rs192bn (Rs 161 Bn as of Dec'22)

Segment	Rs. Crs	Segment	Rs. Crs
Roads	8,855	Others EPC Projects	7,285
HAM	2,363	Power T&D	2,820
Tumkur-Shivamoga IV, Karnataka	794	Rajasthan	408
Tumkur - Shivamoga II, Karnataka	203	Jammu & Kashmir	328
Tumkur-Shivamoga III, Karnataka	254	Uttar Pradesh	27
Kandi Ramsanpalle, Telangana	35	Madhya Pradesh	888
Tumkur - Shivamoga I, Karnataka	75	Bihar	25
Belgaum - Khanapur, Karnataka	203	Maharashtra	606
Kharar - Ludhiana, Punjab	35	Assam	85
Basawantpur to Singnodi	734	Benin	148
Others (HAM Projects)	29	Others/ Miscellaneous	306
EPC	6,492	Railways	1,439
Panagarh to Palsit	935	Jharkhand	243
Banur - Kharar	606	Gujarat	168
Pararia to Mohania NH319, Bihar	188	Punjab	105
Arrah to Pararia NH319, Bihar	15	MP	2
Kwaram Taro, Assam	286	Assam	505
TOT EPC	129	Bihar	186
Mopa Airport	445	Karnataka	230
Navi Mumbai International Airport	168	EPC - Buildings	2,996
Belgaum Sankeshwar	804	CGD	29
Guyana	815	Total (as on 31-Dec-22)	16,140
Others	6	Projects Added After December 2022	
Aroor Tharavoor	1,668	Power Agra 1 Zone (Uttar Pradesh)	371
SPV Maintenance EPC Contracts	428	Power Aligrah 2 Zone (Uttar Pradesh)	314
		Power Surajpur - CHH (Chhattisgarh)	164
		Road - Danapur (Bihar)	2,161
		Total	19,150

Source: Company, Nirmal Bang Institutional Equities Research

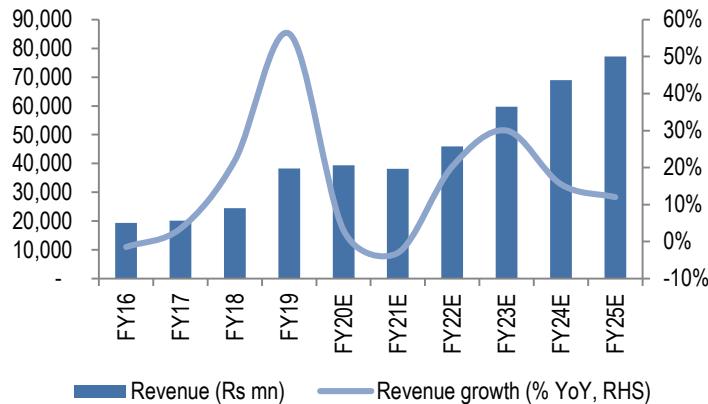
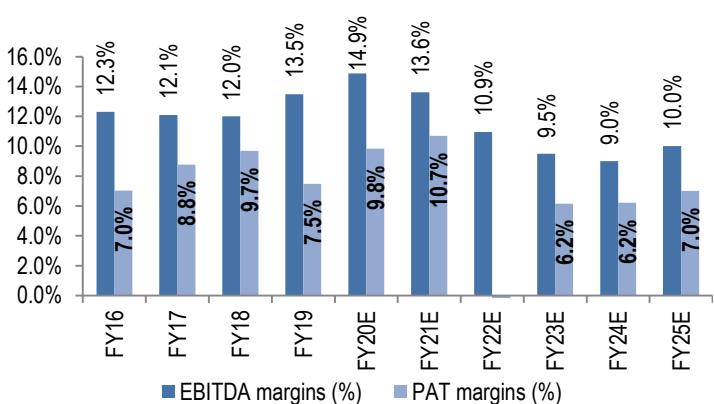
Exhibit 4: HAM Project Portfolio Status

Projects	% Stake (ACL/ABL)	Status	TPC (E)	Grant (E)	Estimated Equity (E)	PIM Contribution (E)	Estimated Debt (E)	Grant Received*	Equity Invested	PIM Received	Total Debt Drawn*	Figures in Rs Crs
												Annuity Received (Annuity+int)
Kharar-Ludhiana	100%	COD	1,450	640	160	50	600	595	157	53	568	288
Ranastalam-Anandpuram	100%	COD(P)	1,040	475	110	40	415	475	105	47	391	185
Vadodara Kim	100%	COD(P)	1,483	675	150	58	600	675	151	54	577	73
Khairatunda-Barwa Adda	100%	COD	712	344	71	26	270	374	72	41	254	75
Belgaum-Khanapur	100%	COD(P)	746	343	77	31	295	270	59	28	176	55
Tumkur-Shivamogga-II	100%	UC	1,006	487	97	37	385	414	90	27	275	
Tumkur-Shivamogga-I	100%	COD(P)	741	367	71	28	275	305	67	19	231	
Kandi-Ramsanpalle	100%	COD(P)	725	400	69	21	235	423	60	39	177	
Tumkur-Shivamogga-IV	100%	UC	1,127	553	88	56	430	119	51	21	0	
Tumkur-Shivamogga-III	100%	UC	755	414	60	31	250	280	53	19	73	
Basawantpur Singnodi	100%	UC	1,082	509	144	39	390	0	36	0	0	
Total			10,866	5,207	1,096	418	4,145	3,930	901	349	2,723	676

- COD(P) – Commercial Operational Date (Provisional)
- UC – Under Construction
- COD – Commercial Operational Date
- E – Estimated

*as of December 31st, 2022

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Revenue to grow at 19% CAGR over FY22-FY25E

Exhibit 6: EBITDA margins to hover around 9-10%


Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

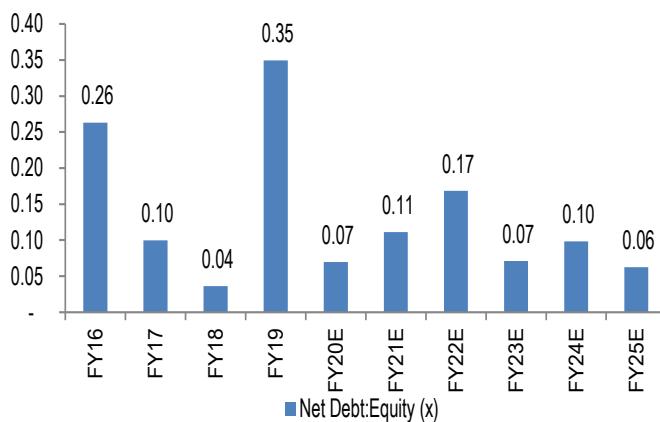
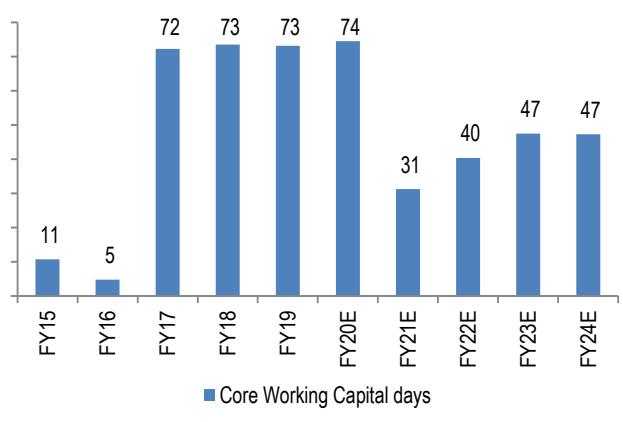
Exhibit 7: Net Debt/Equity

Exhibit 8: Core Capital working days


Exhibit 9: Valuation summary

Particulars	Rs mn
Sep24 PAT	4,850
Multiple	7
Equity value	31,522
No. of shares	281
Equity value per share (Rs)	112
Value of asset business	16
Target price (Rs)	128
CMP (Rs)	80
Upside/ (Downside)	60%

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 10: Income statement

Y/E (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	38,175	45,915	59,689	68,941	77,214
growth (%)	(3.0)	20.3	30.0	15.5	12.0
Operating expenses	32,980	40,890	54,018	62,736	69,492
EBITDA	5,195	5,025	5,670	6,205	7,721
growth (%)	(11.3)	(3.3)	12.8	9.4	24.4
Depreciation	872	697	953	693	751
EBIT	4,323	4,328	4,717	5,512	6,971
Interest paid	772	856	1,264	1,264	1,264
Other income	1,921	1,988	1,507	1,537	1,614
Pre-tax profit	5,472	5,460	4,961	5,785	7,321
Tax	1,391	851	1,290	1,504	1,904
Effective tax rate (%)	25.4	15.6	26.0	26.0	26.0
Net profit	4,081	4,610	3,671	4,281	5,418
Exceptional items	-	7,696	-	-	-
Adjusted net profit	4,081	(3,086)	3,671	4,281	5,418
growth (%)	5.4	(175.6)	(218.9)	16.6	26.6
EPS	14.5	(11.0)	13.1	15.3	19.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

YE March	FY20	FY21	FY22	FY23E	FY24E
Adj EPS (Rs)	14.5	-11.0	13.1	15.3	19.3
Adj EPS growth (%)	5.4	NA	NA	16.6	26.6
EBITDA margin (%)	13.6	10.9	9.5	9.0	10.0
Pre-tax margin (%)	14.3	11.9	8.3	8.4	9.5
ROE (%)	14.6	-10.8	12.7	13.1	14.4
ROCE (%)	12.9	14.3	11.7	11.7	12.7
Turnover & Leverage ratios					
Asset turnover (x)	0.7	0.8	1.0	1.0	1.0
Leverage factor (x)	1.8	2.0	2.0	2.0	2.0
Net margin (%)	10.7	-6.7	6.2	6.2	7.0
Net Debt/Equity (x)	0.1	0.2	0.1	0.1	0.1
Working Capital Ratio					
Inventory days	16	15	18	18	18
Receivable days	136	88	100	107	107
Payable days	78	72	78	78	78
Valuation (x)					
PER (x)	5.5	NA	6.1	5.2	4.1
Price/Book value (x)	0.7	0.8	0.7	0.6	0.6
PCE (x)	4.5	NA	4.9	4.5	3.6
EV/Net sales (x)	0.6	0.5	0.3	0.3	0.3
EV/EBITDA (x)	4.3	4.6	3.6	3.4	2.5
Dividend Yield (%)	0.5	0.5	0.5	1.5	1.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance Sheet

Y/E (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	1,404	1,404	1,404	1,404	1,404
Reserves and Surplus	28,664	25,584	29,255	33,536	38,954
Networth	30,067	26,987	30,658	34,939	40,357
Total Debt	4,387	5,593	7,281	7,881	8,481
Deferred tax liability	-	-	-	-	-
Other noncurrent liabilities	3,470	4,028	4,084	4,146	4,213
Trade Payables	7,021	8,080	11,500	13,356	14,794
Other Current Liabilities	7,617	8,148	8,070	9,321	10,440
Total Current Liabilities	17,090	17,052	20,744	24,034	26,812
Total liabilities	55,014	53,661	62,767	71,000	79,863
NB	2,854	2,789	2,886	2,925	2,907
CWIP	17	17	17	17	17
Investment	14,585	10,628	12,428	14,228	16,028
Other non-current assets	789	941	1,129	1,355	1,626
Inventories	1,717	1,877	2,960	3,438	3,808
Sundry Debtors	14,200	11,129	16,353	20,210	22,635
Cash and Bank	1,040	1,052	5,103	4,446	5,955
Other current assets	-	4,259	4,685	5,154	5,669
Total Current Assets	24,994	38,313	45,256	51,371	58,126
Total Assets	55,014	53,661	62,768	71,000	79,864

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash flow statement

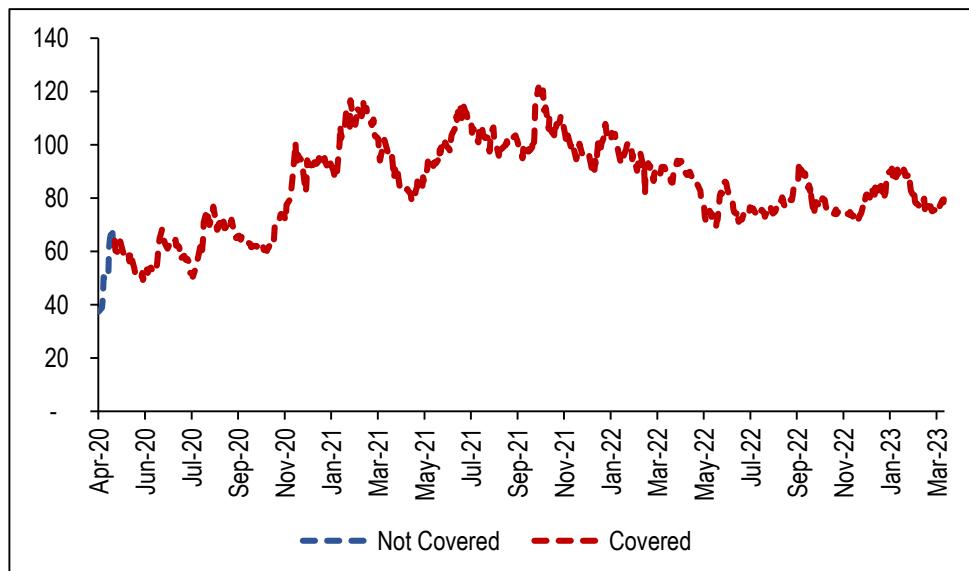
YE March, Rs mn	FY20	FY21	FY22	FY23E	FY24E
EBIT	6,244	(1,380)	6,225	7,049	8,585
Add: Depreciation & Impairment	872	697	953	693	751
Cash flow from operations b4 WC	5,839	(2,293)	7,178	7,742	9,336
Net change in Working capital	(2,895)	(12,722)	855	(3,420)	(2,401)
Tax paid	(1,391)	(851)	(1,290)	(1,504)	(1,904)
Net cash from operations	1,554	(15,865)	6,743	2,818	5,031
Capital expenditure	(158)	(632)	(1,050)	(733)	(733)
Investments	(3,650)	14,762	(1,820)	(1,821)	(1,822)
Net cash from investing	(2,281)	15,589	(3,058)	(2,779)	(2,825)
Issue of shares	-	-	-	-	-
Increase in debt	53	1,206	1,688	600	600
Dividends paid incl. tax	-	-	-	-	-
Net cash from financing	(763)	288	366	(696)	(697)
Net Cash	(1,489)	12	4,051	(657)	1,509
Opening Cash	2,529	1,040	1,052	5,103	4,446
Closing Cash	1,040	1,052	5,103	4,446	5,955

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 April 2020	BUY	64	87
27 May 2020	BUY	51	87
17 June 2020	BUY	56	87
13 August 2020	BUY	61	87
24 September 2020	BUY	66	99
6 October 2020	BUY	66	99
13 November 2020	BUY	61	87
6 January 2021	BUY	93	112
8 February 2021	ACCUMULATE	104	109
22 June 2021	ACCUMULATE	98	109
12 August 2021	BUY	102	152
16 November 2021	BUY	104	167
28 December 2022	BUY	102	167
15 February 2022	BUY	90	167
27 May 2022	BUY	72	160
12 August 2022	BUY	76	160
19 September 2022	BUY	85	154
15 November 2022	BUY	73	154
13 March 2023	BUY	80	128

Rating track graph



KNR Construction

13 March, 2023

Reuters: KNRL.NS; Bloomberg: KNRC:IN

Robust Orderbook; expect sustained margins

KNR constructions (KNR) is one of India's leading road building firms. KNR, founded as a solo enterprise in 1988, has an exceptional reputation of completing road projects on time. In the road sector, its clients include NHAI, state governments, and private firms. KNR has also expanded into sectors like as urban development, mining, and irrigation.

Investment Rationale:

Monetization of assets: During October 2022, the company completed the sale of three projects to Cube Highways. The deal was signed earlier and 49% stake was transferred to Cube in FY22. The remaining stake has now been transferred and pending consideration has been received. Overall, for these 3 projects, the company had invested equity of Rs3.6bn and has received a consideration of Rs5.25bn (1.4x the investment).

Key strengths:

- KNR focus has always remained execution and for this it has won early completion bonus from various authorities from time to time. KNR has till date won Rs.3.4bn as early completion bonus since inception.
- KNR continuous focus on execution and planning led to earning higher operating margins and in turn higher ROE compared to its industry peers.
- KNR plans to bring down its working capital cycle by focusing more on EPC projects. KNR brought its working capital days down from 96 in FY21 to 79 to FY22. Net working capital stood at 53 days for 3QFY23.
- The road construction push by NHAI and the Bharatmala Pariyojana will entail total investment of Rs. 6.92 Trillion. Players like KNR will be able to garner a larger pie of these orders on the back of their execution skills, owned equipment and higher borrowing power on the back of healthy balance sheet.

Valuation: The company's Revenue/EBITDA/APAT grew at a CAGR of 14%/15%/9% from FY18 to FY22. Given solid order books, owned equipment, in-house execution skills, and a robust bid pipeline, we anticipate revenue, EBIDTA, and PAT to expand at corresponding CAGRs of 13%, 8%, and 14% from FY22 to FY25E. We anticipate the EBIDTA margin to stay constant between 18 and 19%. Considering the recent sale of BOT assets and decrease in working capital requirements, it is anticipated that debt will continue to decline, hence enhancing ROE and ROCE. We anticipate ROE and ROCE to hover around 17-18% in FY25E. KNR is trading at 17x FY23E EPS at CMP. We re-initiate coverage on KNR with a price objective of Rs. 361, based on 18x September 24E EPS. (upside of 33%). Key risk: Any delay in revival of project awarding would impact the growth of the company and our estimates.

Financial Summary (Standalone)

Y/E March (Rs mm)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	27,026	32,726	36,290	41,733	46,741
EBITDA	5,358	6,777	7,077	7,929	8,647
EBITDA Margin (%)	19.8	20.7	19.5	19.0	18.5
Adj.PAT	2,442	3,818	4,417	5,091	5,672
EPS (Rs)	9	14	16	18	20
EPS Growth (%)	8.4	56.4	15.7	15.3	11.4
PE(x)	31.3	20.0	17.3	15.0	13.5
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	14.1	11.1	10.4	9.2	8.1
RoE (%)	14.0	18.6	18.0	17.4	16.4
RoCE (%)	15.3	18.2	18.1	17.5	16.5

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Construction

CMP: Rs272

Target Price: Rs361

Upside: 33%

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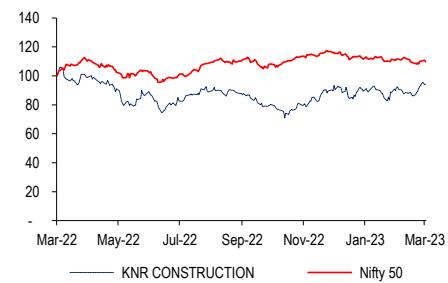
+91 022-62738121

Key Data

Current Shares O/S (man)	281.2
Mkt Cap (Rsbn/US\$mn)	76.5/932.9
52 Wk H / L (Rs)	311/203
Daily Vol. (3M NSE Avg.)	388,962

Share holding (%)	Dec-22	Sep-22	Jun-22
Promoters	51.1	51.1	51.6
Public	48.9	48.9	48.4
Others	-	-	-

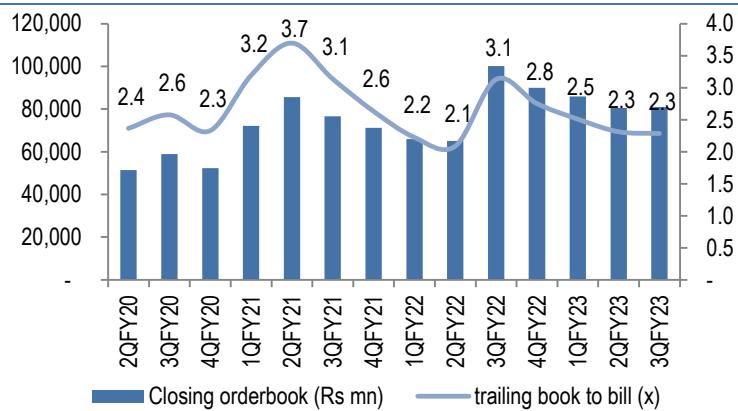
One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
KNR Construction	4.3	8.3	(11.3)
Nifty Index	(2.0)	(3.6)	4.7

Source: Bloomberg

Exhibit 1: Book to bill ratio at 2.3x


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: BOT Portfolio –Annuity Projects

	Particulars	Patel KNR Infrastructures limited (PKIL)	Patel KNR Heavy Infrastructures Limited (PKHIL)
Project Details	Stake	40%	40%
	Project Type	Road-Annuity	Road-Annuity
	State	Karnataka	Telangana
	JV Partner	PEIL	PEIL
	Client	NHAI	NHAI
	Length (KM)	60.0	53.0
Terms	Concession Start Date	26 th March 2007	2 nd March 2008
	Concession Period	20 Years	20 Years
	COD	21 st December 2009	11 th June 2010
Financials	Project Cost (Rs. mn)	4,420.0	5,920.0
	Equity (31.12.2022) (Rs. mn)	370.0	648.7
	Debt (31.12.2022) (Rs. mn)	1,563.5	2,507.0
	Securitized	Yes*	Yes**
	Semi-Annuity - 36 Instalments (Rs. mn)	329.4	443.7

* PKIL securitized its project loan through issuance of non-convertible debentures to LIC of India & raised Rs. 4,090 mn in April 2010. The said proceeds were used to retire the existing high cost project loan and unsecured loans of promoters and to meet the issue expenses.

**PKHIL securitized its project loan through issuance of non-convertible debentures to L&T Infrastructures Finance Company Limited and raised Rs 4000 mn in Sept. 2013. The said proceeds were used to retire the existing high cost project loans (Other than the ECB of USD 25 Millions availed from the Standard Chartered Bank, London) and unsecured loans of promoters and to meet the issue expenses.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: HAM Portfolio

	Particulars	Magadi to Somwarpet	Oddanchatram to Madathukulam	Ramanattukara to Valanchery	Valanchery to Kappirkkad	Chittor to Thatchur
Project Detail	SPV Name	KNR Somwarpet Infra Private Limited	KNR Palani Infra Private Limited	KNR Ramanattukara Infra Private Limited	KNR Guruvayur Infra Private Limited	KNR Ramagiri Infra Private Limited
	Stake	100%	100%	100%	100%	100%
	Project Type	Hybrid Annuity	Hybrid Annuity	Hybrid Annuity	Hybrid Annuity	Hybrid Annuity
	State	Karnataka	Tamil Nadu	Kerala	Kerala	Andhra Pradesh
	Client	KSHIP	NHAI	NHAI	NHAI	NHAI
	No of Lanes	Two	Four	Six	Six	Six
Financials	Length(KM)	166.0	45.4	39.7	37.4	34.7
	Concession Period	9 Years	17 Years	17.5 Years	17.5 Years	17 Years
	Bid Project Cost (Rs. mn)	11,445.0	9,200.0	23,675.0	21,400.0	10,415.0
Progress	Total Project Cost (Rs. mn)	11,276.0	7,920.0	21,500.0	19,594.0	9,309.1
	Grant (Rs. mn) ^a	7,485.0	3,945.4	10,250.0	9,242.5	4,501.7
	Estimated Equity (Rs. mn)	1,221.0	804.6	2,250.0	2,091.5	961.5
	Estimated Debt (Rs. mn)	2,570.0	3,170.0	9,000.0	8,260.0	3,845.9
	Appointed Date	12 th February 2020	5 th October 2020	21 st January 2022	21 st January 2022	25 th January 2023
PCOD / COD	PCOD / COD	-	-	-	-	-
	% Physical Progress	68.9%	85.6%	14.3%	16.8%	0.0%
	Equity Invested (Rs. mn)	986.9	644.0	1,168.6	130.7	1.0
	Grant Received (Rs. mn)	5,239.5	3,488.7	2,589.9	2,493.8	0.0
Debt Already Drawn (Rs. mn)	Debt Already Drawn (Rs. mn)	0	2,000.0	0.0	0.0	0.0

^aGrant includes estimated Price Index Multiple of Rs. 2,063.6 mn

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Divestment of 3 SPVs

Particulars	Total Equity Invested (Rs. mn)	Total Consideration (Rs. mn)	Consideration (Rs. Mn)	
			Already Received	To be received**
KNR Tirumala Infra Pvt Ltd* (Divestment 100% stake: 20 th Oct. 2022)	1,602.2	2,189.9  1.37 times	=	2,049.4 + 140.5
KNR Shankarampet Projects Pvt Ltd* (Divestment 100% stake: 20 th Oct. 2022)	1,268.1	1,592.1  1.26 times	=	1,546.0 + 46.1
KNR Srirangam Infra Pvt Ltd (Divestment 100% stake: 14 th Oct. 2022)	783.6	1,465.5  1.87 times	=	1,311.5 + 154.0
<i>Divestment of 100% stake completed for all 3 SPVs in October 2022</i>				

* - Already received an amount of Rs. 1,227.1 million on account of inflation which is passed on by SPV to EPC contractor i.e. KNR Constructors Limited which is in addition to total consideration received

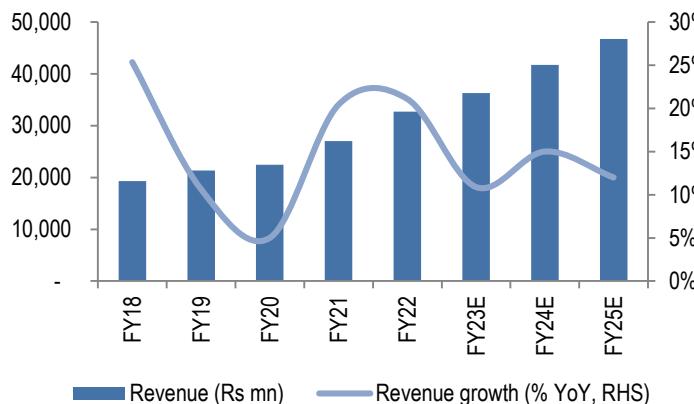
** - To be received an additional consideration of up to an amount mentioned above subject to receipt of certain approvals from NHAI

Source: Company, Nirmal Bang Institutional Equities Research

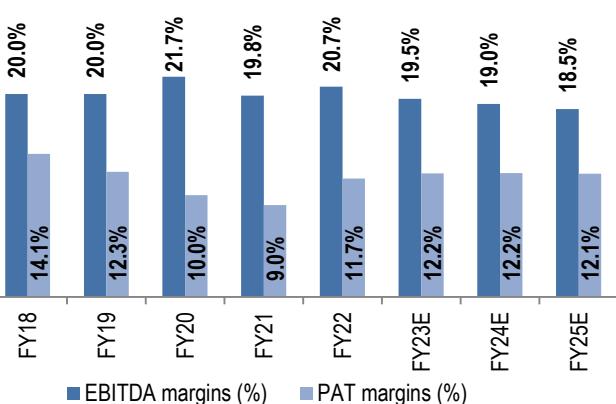
Exhibit 5: Orderbook as of 3QFY23

Key Projects	Rs. Mn
Ramanattukara to Valanchery bypass project (HAM)	14,955
Valanchery Bypass to Kappirikkad project (HAM)	13,264
Bangalore-Mangalore Project (Periya Shanthi to Bntwal) (EPC)	8,245
Development of Six lane Chittoor-Thatthur Highway (HAM)	7,650
Elevated Highway along Avinashi Road in Coimbatore City (EPC)	7,032
Top 5 Road Projects	51,146
Other Road Projects	11,418
Irrigation Projects	18,437
Total Orderbook as on 31st December 2022	81,001

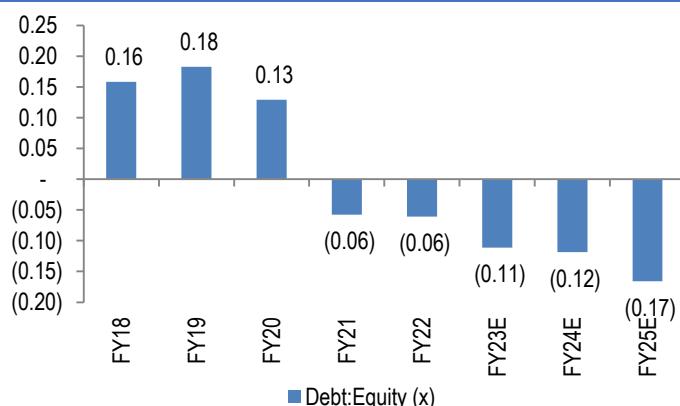
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Revenue to grow at 13% CAGR over FY22-FY25E


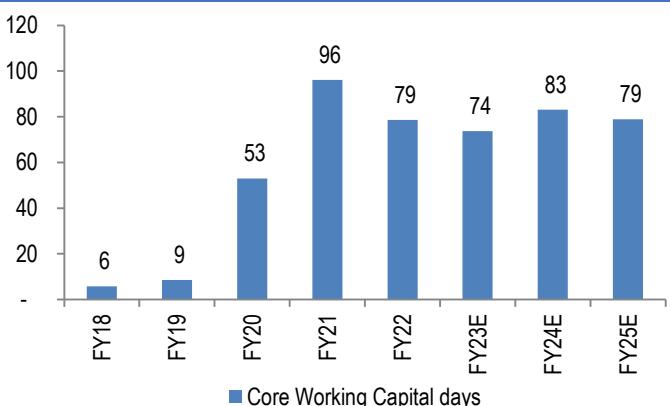
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: EBITDA margins to hover around 18-19%


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Net Debt/Equity


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Core Capital working days


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Valuation summary

Particulars	(Rs)
Sep 24 PAT	5,382
Target Multiple (x)	18
Total Equity value	96,874
No of shares (mn)	281
EPC value per share (Rs)	344
Value of BOT & HAM projects (Rs)	17
Target price (Rs)	361
CMP (Rs)	272
Potential Upside / (downside) %	33%

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 11: Income statement

Y/E (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	27,026	32,726	36,290	41,733	46,741
growth (%)	20.4	21.1	10.9	15.0	12.0
Operating expenses	21,668	25,949	29,213	33,804	38,094
EBITDA	5,358	6,777	7,077	7,929	8,647
growth (%)	10.0	26.5	4.4	12.1	9.1
Depreciation	1,444	1,346	1,400	1,400	1,400
EBIT	3,915	5,431	5,677	6,529	7,247
Interest paid	487	274	100	100	100
Other income	496	417	392	451	518
Pre-tax profit	3,924	5,574	5,968	6,880	7,666
Tax	1,370	1,970	1,552	1,789	1,993
<i>Effective tax rate (%)</i>	34.9	35.3	26.0	26.0	26.0
Minority Interest	-	-	-	-	-
Net profit	2,554	3,604	4,417	5,091	5,672
Exceptional items	(112)	214	-	-	-
Adjusted net profit	2,442	3,818	4,417	5,091	5,672
growth (%)	8.4	56.4	15.7	15.3	11.4
EPS	8.7	13.6	15.7	18.1	20.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

YE March	FY21	FY22	FY23E	FY24E	FY25E
Adj EPS (Rs)	8.7	13.6	15.7	18.1	20.2
Adj EPS growth (%)	8.4	56.4	15.7	15.3	11.4
EBITDA margin (%)	19.8	20.7	19.5	19.0	18.5
Pre-tax margin (%)	14.5	17.0	16.4	16.5	16.4
ROE (%)	14.0	18.6	18.0	17.4	16.4
ROCE (%)	15.3	18.2	18.1	17.5	16.5
Turnover & Leverage ratios					
Asset turnover (x)	1.0	1.0	1.0	1.0	0.9
Leverage factor (x)	1.6	1.5	1.5	1.5	1.4
Net margin (%)	9.0	11.7	12.2	12.2	12.1
Net Debt/Equity (x)	-0.06	-0.06	-0.11	-0.12	-0.17
Working Capital Ratio					
Inventory days	20	25	22	23	24
Receivable days	117	95	96	103	98
Payable days	40	41	45	42	43
Valuation (x)					
PER (x)	31.3	20.0	17.3	15.0	13.5
Price/Book value (x)	4.1	3.4	2.9	2.4	2.0
PCE (x)	19.7	14.8	13.2	11.8	10.8
EV/Net sales (x)	2.8	2.3	2.0	1.7	1.5
EV/EBITDA (x)	14.1	11.1	10.4	9.2	8.1
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance Sheet

Y/E (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	562	562	562	562	562
Reserves and Surplus	18,116	21,857	26,218	31,253	36,869
Net worth	18,678	22,420	26,780	31,815	37,432
Total Debt	7	-	-	-	-
Deferred tax liability	-	-	-	-	-
Other noncurrent liabilities	198	270	270	270	270
Trade Payables	2,397	2,945	3,574	3,904	4,461
Other Current Liabilities	6,244	6,144	7,375	8,653	9,322
Total Current Liabilities	10,324	10,605	12,704	14,589	16,138
Total liabilities	29,207	33,295	39,754	46,675	53,839
NB	3,378	4,144	3,744	3,344	2,944
CWIP	24	206	-	-	-
Investment	5,557	5,486	8,986	11,486	13,986
Other non-current assets	793	1,770	1,947	2,142	2,356
Inventories	1,480	2,270	2,200	2,604	3,045
Sundry Debtors	8,632	8,494	9,570	11,722	12,529
Cash and Bank	1,082	1,367	2,974	3,775	6,211
Other current assets	3,589	4,488	4,971	5,717	6,403
Total Current Assets	17,692	20,128	23,610	28,236	33,087
Total Assets	29,207	33,295	39,754	46,675	53,839

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Cash flow statement

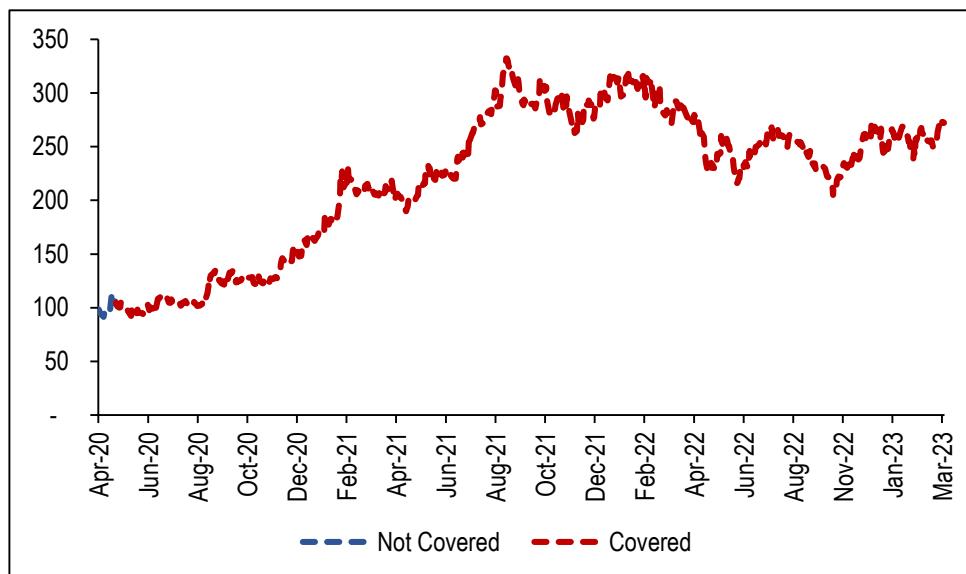
YE March, Rs mn	FY21	FY22	FY23E	FY24E	FY25E
EBIT	4,411	5,848	6,068	6,980	7,766
Add: Depreciation & Impairment	1,444	1,346	1,400	1,400	1,400
Cash flow from operations b4	5,742	7,408	7,468	8,380	9,166
WC					
Net change in Working capital	(2,288)	(1,595)	224	(1,939)	(866)
Tax paid	(1,370)	(1,970)	(1,552)	(1,789)	(1,993)
Net cash from operations	2,085	3,843	6,140	4,652	6,307
Capital expenditure	(953)	(2,374)	(701)	(1,000)	(1,000)
Sale of investments	2,066	(225)	(3,500)	(2,500)	(2,500)
Net cash from investing	1,429	(3,575)	(4,378)	(3,695)	(3,714)
Issue of shares	(2)	(6)	(0)	(0)	0
Increase in debt	(2,290)	(8)	-	-	-
Dividends paid incl. tax	-	(70)	(56)	(56)	(56)
Net cash from financing	(2,634)	18	(156)	(156)	(156)
Net Cash	880	285	1,606	801	2,436
Opening Cash	202	1,082	1,367	2,974	3,775
Closing Cash	1,082	1,367	2,974	3,775	6,211

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 April 2020	BUY	208	338
27 May 2020	BUY	189	338
15 June 2020	BUY	196	343
9 July 2020	BUY	210	343
20 August 2020	BUY	257	343
23 September 2020	BUY	248	373
24 September 2020	BUY	248	373
6 October 2020	BUY	253	373
17 November 2020	BUY	259	373
16 August 2021	BUY	284	368
16 November 2021	BUY	285	368
17 February 2022	BUY	308	368
31 May 2022	BUY	263	330
16 August 2022	BUY	264	330
19 September 2022	BUY	245	348
16 November 2022	BUY	239	348
13 March 2023	BUY	272	361

Rating track graph



PNC Infatech Ltd

13 March, 2023

Reuters: PNCI.NS; Bloomberg: PNCL:IN

A high growth potential story

PNCIL is a key EPC player in the road sector, with over three decades of expertise that has allowed it to effectively grow its operations over time. The firm has made considerable investments in brand development and has emerged as a prominent contractor in the construction industry. It has successfully completed 70 large infrastructure projects across 15 states over the years, 47 of which are road EPC projects. It is actively working on 23 projects, including 6 BOT and 1 OMT projects with both toll and annuity assets. It has 1 HAM project with 13 HAM projects under development and 5 projects that have gotten COD/PCOD and are operational. Out of the total orderbook, water projects contribute 35%. Company expects total revenue of up to Rs 9bn for FY23 from drinking water projects. Revenue from the Water & Irrigation segment [Jal Jeevan Mission (JJM) projects] is likely to start contributing significantly from 2HFY23, driving higher revenue growth in FY24.

Investment Rationale:

Efficient project execution: The firm's years of experience in the infrastructure sector, along with its strong integrated in-house design and technical capabilities, allow it to oversee every stage of a project from inception to completion. It also helps when tailoring services to meet individual customer needs. In order to execute projects quickly and efficiently, the firm has made proactive investments in construction equipment. The business has the necessary financial and technical qualifications to compete on major projects, and thanks to its track record of successful project execution, it is now qualified to submit bids on projects with ticket sizes of up to Rs 40bn.

Consistent revenue stream: The company's revenue has grown at a 36% CAGR over FY18-FY22 to Rs 63bn in FY22 from Rs 18.5bn in FY18. Its EBITDA margins remained stable between 13-14% during this period.

Strong financial position: During FY18-FY22, the company's Revenue/EBITDA/APAT expanded at a CAGR of 36%/25%/16%, resulting in consistent accretion and strengthening of the company's reserves and Net Worth (which grew at a CAGR of 17% during this time). In the highly competitive construction industry, the company's low debt, lean balance sheet, improved operating ratio, and strong return ratios are indicative of its good long-term success.

Consistent capital infusion over the years: The total requirement for all 18 HAM projects is Rs 24.4bn, out of which company has invested Rs 11.7bn and the balance would be infused over 2-3 years. From FY17-FY22, the company generated OCF of Rs 1.7bn and generated FCF of Rs 2.5bn for FY22 (adjusted for Capex and interest payment). While the industry is facing problems of financial closure and fundraising, PNC Infatech's strong balance sheet position, robust credit profile, and brand image have helped it stay ahead of the curve and overcome these challenges.

Valuation: The company's forecast for FY22-25E remains positive, owing to a large order book with 2-3 years of revenue visibility, good progress in road projects, a favourable industry tailwind, and the company's outstanding track record of high-quality and on-time project execution. These variables will guarantee that the company's revenue grows in the future. We anticipate a revenue/EBITDA/APAT CAGR of 14%/14%/15% from FY22 to FY25E. The stock is now trading at 15x and 13x EPS for fiscal years 23E and 24E, respectively. We reintroduce PNCIL coverage with a BUY rating, valuing its EPC business at 14x Sep 24E EPS and the HAM portfolio at 1x book value, for a target price of Rs 375/share. The TP represents a 29% increase from the CMP.

Key Financial Summary

Y/E March (Rsmn)	FY21	FY22E	FY23E	FY24E	FY25E
Revenue	49,254	63,055	71,562	82,297	92,584
EBITDA	6,728	7,872	9,303	10,699	11,573
EBITDA Margin(%)	13.7	12.5	13.0	13.0	12.5
Adj.PAT	3,619	4,478	5,279	6,126	6,801
EPS (Rs)	14.1	17.5	20.6	23.9	26.5
EPS Growth (%)	(21.4)	23.7	17.9	16.0	11.0
PE(x)	20.6	16.6	15.4	13.2	11.8
Dividend Yield (%)	-	0.2	0.2	0.2	0.2
EV/EBITDA (x)	10.4	9.1	8.0	6.9	6.2
RoE (%)	13.3	14.3	13.5	13.9	13.6
RoCE (%)	11.5	11.5	12.5	12.6	13.0

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Construction

CMP: Rs290

Target Price: Rs375

Upside: 29%

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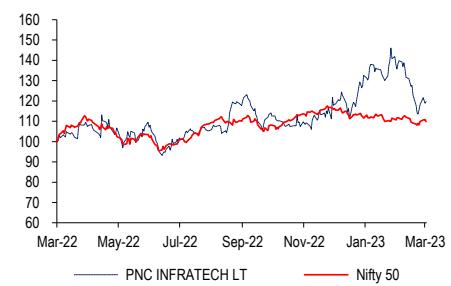
+91 022-62738121

Key Data

Current Shares O/S (man)	256.5
Mkt Cap (Rsbn/US\$mn)	74.6/909.1
52 Wk H / L (Rs)	355/219
Daily Vol. (3M NSE Avg.)	802,137

Share holding (%)	Dec-22	Sep-22	Jun-22
Promoters	56.1	56.1	56.1
Public	43.9	43.9	43.9
Others	-	-	-

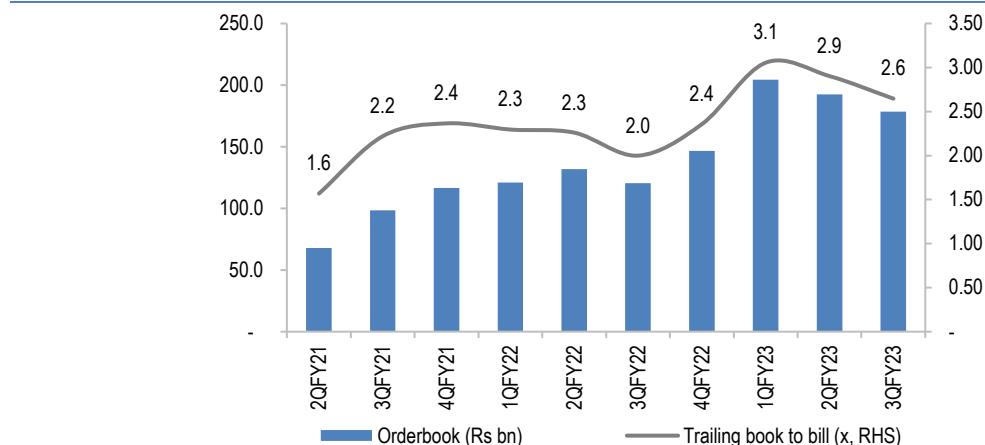
One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
PNC Infratech	(12.8)	(0.2)	19.3
Nifty Index	(2.0)	(3.6)	4.7

Source: Bloomberg

Exhibit 1: Book to bill ratio comfortable at 2.6x


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Orderbook as of 3QFY23

Key EPC Projects Under Construction		Awarding Authority		Remaining Value (Rs. Crores)
Akkalkot Pkg-II (Badadal-Maradgi S)		NHAI		1,367
Kanpur-Lucknow Expressway Pkg-2		NHAI		1,315
Sonali – Gorakhpur		NHAI		1,283
Kanpur-Lucknow Expressway Pkg-1		NHAI		1,278
Mathura Bypass Pkg-1B (Mathura - Gaju Village)		NHAI		788
Hardoi Bypass		NHAI		756
Top 6 road projects				6,787
Water and Canal Projects				7,413
Other Projects				3,642
Total Order Book				17,842

Contract under execution is over Rs. 17,800 crore which is over 2.5 times of FY22 revenue

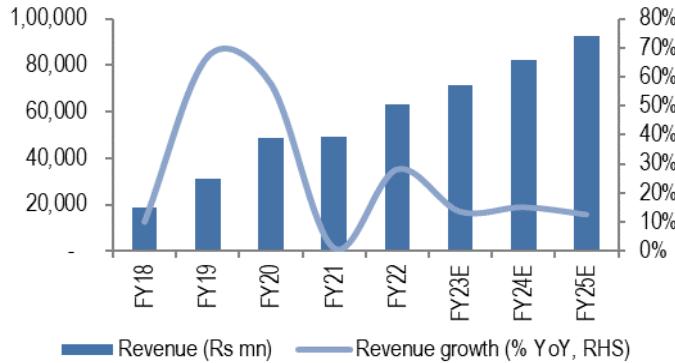
Road EPC projects constitute 58% of total order-book

Source: Company, Nirmal Bang Institutional Equities Research

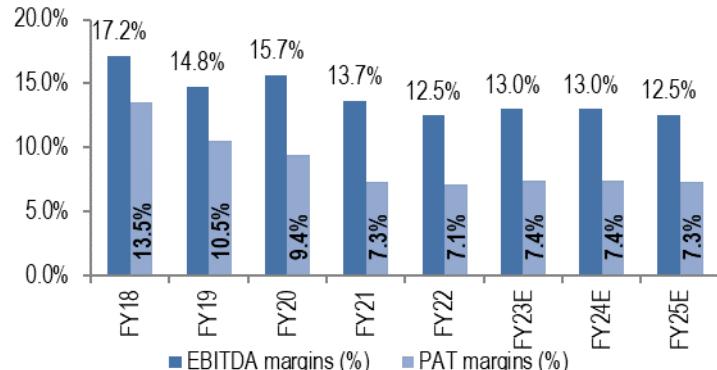
Exhibit 3: Sizeable Project Portfolio: HAM Projects

Project	% Stake	Authority	State / Stretch	Kms / Lanes	Status	TPC (Rs. Crs)	Invested Equity (Rs. Crs)	PNC Share of Invested Amount (Rs. Crs)	Total Debt (Rs. Crs)	Debt / Bond as on 31 st Dec. '22 (Rs. Crs)
Dausa-Lalsot	100%	NHAI	Raj/ NH11A	83.45 / 4/2	COD	820	65	65	371	293
Aligarh-Kanpur	100%	NHAI	UP / NH-91	45 / 4	COD	1,110	131	131	500	490
Jhansi-Khajuraho (Pkg II)	100%	NHAI	UP & MP / NH 75/76	85.4 / 4	COD	1,262	104	104	590	519
Chitradurga-Davanagere	100%	NHAI	Karnataka / NH 48	72.7 / 6	PCOD	1,338	107	107	606	534
Jhansi-Khajuraho (Pkg I)	100%	NHAI	UP & MP / NH 75/76	76.3 / 4	PCOD	1,342	128	128	604	571
Chakeri-Allahabad	100%	NHAI	UP / NH 2	145.1 / 6	UC	2,018	172	172	873	722
Challakere-Hariyur	100%	NHAI	Karnataka / NH 150 A	55.7 / 4	UC	1,023	66	66	440	240
Jagdishpur-Faizabad	100%	NHAI	UP / NH-330 A	60.2 / 4	UC	1,311	88	88	559	350
Mitrans to Kanpur	100%	NHAI	UP / NH-91	60.6 / 4	UC	1,790	147	147	775	570
Unnao-Lalganj	100%	NHAI	UP / NH-232 A	70.0 / 4	UC	1,491	79	79	631	277
Meerut – Nazibabad	100%	NHAI	UP / NH-119	53.9 / 4	UC	1,207	75	75	514	282
Kanpur-Lucknow (Pkg I)	100%	NHAI	UP / NH-27	17.5 / 6	UC	1,618	6	6	780	-
Kanpur-Lucknow (Pkg II)	100%	NHAI	UP / NH-31/25	45.2 / 6	UC	1,662	6	6	777	-
Sonauli-Gorakhpur	100%	NHAI	UP / NH-29E	79.5 / 4	CA	1,611	-	-	-	-
Mathura - Gaju Village (Package 1B)	100%	NHAI	UP/ NH-530B	32.9 / 4	FC	994	0.25	0.25	472	-
Hardoi	100%	NHAI	UP / NH-731	54.4 / 4	UC	948	0.25	0.25	443	-
Gaju Village- Devinagar (Package 1C)	100%	NHAI	UP/ NH-530B	33.0 / 4	UC	819	0.25	0.25	386	-
Akkalkot Pkg-II (Badadal-Maradgi S)	100%	NHAI	MH & KN / NH-150C	71.0 / 6	UC	1,733	0.25	0.25	812	-
						24,097	1,175	1,175	10,133	4,848

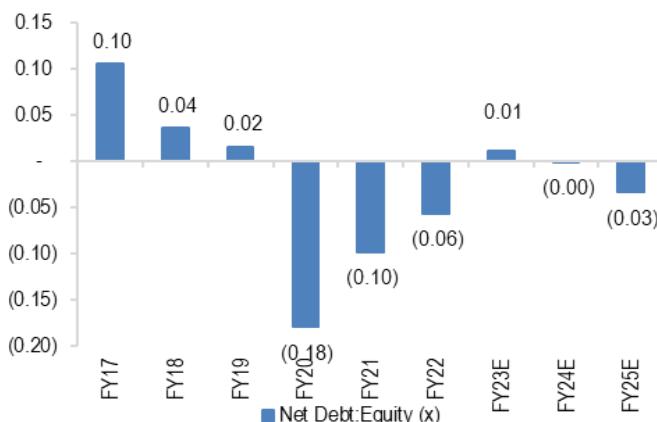
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Revenue to grow at 14% CAGR over FY22-FY25E


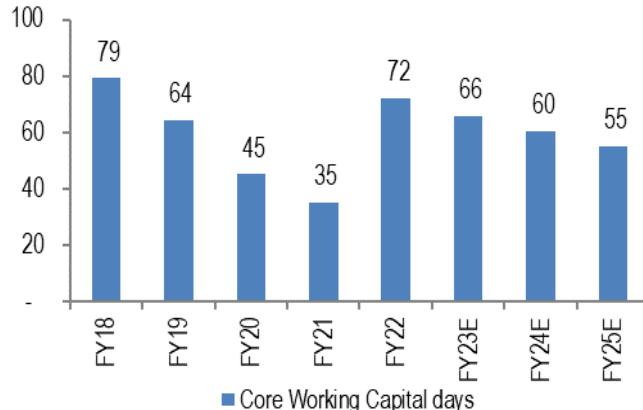
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: EBITDA margins to hover around 13%


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Net Debt/Equity


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Core Capital working days


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Valuation summary

Particulars	(Rs)
Sep24 PAT	6,003
Target Multiple (x)	14
Equity value (Rs mn)	84,647
No of shares (mn)	257
Value per share (Rs)	330
Value of BOT projects (Rs)	15
Value of HAM projects (Rs)	30
Target Price (Rs)	375
CMP (Rs)	290
Potential upside/(downside) (%)	29%

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 9: Income statement

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	49,254	63,055	71,562	82,297	92,584
growth (%)	1.0	28.0	13.5	15.0	12.5
Operating expenses	42,527	55,183	62,259	71,598	81,011
EBITDA	6,728	7,872	9,303	10,699	11,573
growth (%)	-12.0	17.0	18.2	15.0	8.2
Depreciation	1,124	1,299	1,410	1,550	1,550
EBIT	5,604	6,573	7,893	9,149	10,023
Interest paid	771	801	1,410	1,550	1,550
Other income	752	542	613	693	783
Pre-tax profit	5,585	6,314	7,096	8,291	9,256
Tax	1,966	1,836	2,262	2,625	2,915
Effective tax rate (%)	35.2	29.1	31.9	31.7	31.5
Net profit	3,619	4,478	4,834	5,666	6,341
Exceptional items	-	-	-	-	-
Adjusted net profit	3,619	4,478	4,834	5,666	6,341
growth (%)	(21.4)	23.7	7.9	17.2	11.9
EPS	14.1	17.5	18.8	22.1	24.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

YE March	FY21	FY22	FY23E	FY24E	FY25E
Adj EPS (Rs)	14.1	17.5	18.8	22.1	24.7
Adj EPS growth (%)	(21.4)	23.7	7.9	17.2	11.9
EBITDA margin (%)	13.7	12.5	13.0	13.0	12.5
Pre-tax margin (%)	11.3	10.0	9.9	10.1	10.0
ROE (%)	13.3	14.3	13.5	13.9	13.6
ROCE (%)	11.5	12.5	12.6	13.0	12.6
Turnover & Leverage ratios					
Asset turnover (x)	1.1	1.2	1.3	1.3	1.3
Leverage factor (x)	1.7	1.6	1.6	1.6	1.6
Net margin (%)	7.3	7.1	6.8	6.9	6.8
Net Debt/Equity (x)	(0.1)	(0.1)	0.0	(0.0)	(0.0)
Working Capital Ratio					
Inventory days	26	28	29	29	30
Receivable days	62	74	72	70	68
Payable days	53	29	34	39	43
Valuation (x)					
PER (x)	20.6	16.6	15.4	13.2	11.8
Price/Book value (x)	2.6	2.2	2.0	1.7	1.5
PCE (x)	15.7	12.9	11.9	10.3	9.4
EV/Net sales (x)	1.4	1.1	1.0	0.9	0.8
EV/EBITDA (x)	10.4	9.1	8.0	6.9	6.2
Dividend Yield (%)	0.0	0.2	0.2	0.2	0.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	513	513	513	513	513
Reserves and Surplus	28,572	32,889	37,594	43,132	49,345
Networth	29,085	33,402	38,108	43,645	49,858
Total Debt	3,992	2,158	2,692	3,092	3,492
Deferred tax liability	-	-	-	-	-
Other noncurrent liabilities	4,353	7,516	7,905	8,333	8,805
Trade Payables	7,194	5,076	6,717	8,706	10,960
Other Current Liabilities	3,944	4,870	4,206	4,838	5,517
Total Current Liabilities	11,138	9,946	10,923	13,543	16,477
Total liabilities	48,569	53,021	59,628	68,614	78,631
NB	6,557	5,894	7,484	7,934	8,384
CWIP	34	-	-	-	-
Investment	7,465	8,712	12,212	15,712	19,212
Other non-current assets	2,697	3,194	3,513	3,864	4,251
Inventories	3,536	4,808	5,595	6,630	7,724
Sundry Debtors	8,392	12,728	14,053	15,710	17,167
Cash and Bank	6,877	4,068	2,269	3,145	5,206
Other current assets	4,577	4,535	5,146	5,918	6,658
Total Current Assets	27,211	29,370	30,567	35,252	40,933
Total Assets	48,569	53,021	59,628	68,614	78,631

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash flow statement

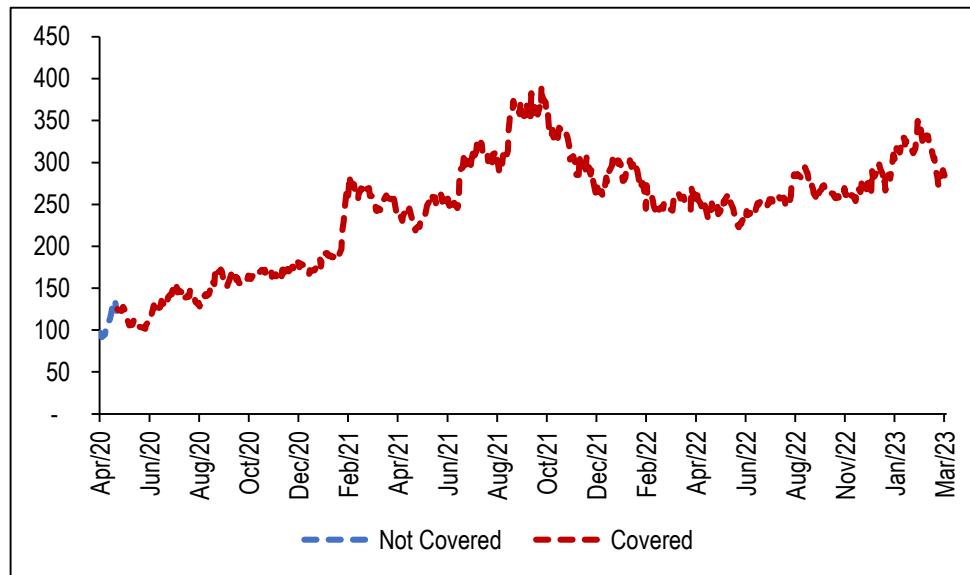
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT	6,356	7,116	8,506	9,841	10,806
Add: Depreciation & Impairment	1,124	1,299	1,410	1,550	1,550
Cash flow from operations b4 WC	7,480	8,415	9,916	11,391	12,356
Net change in Working capital	(3,378)	(3,465)	(1,630)	(760)	(215)
Tax paid	(1,966)	(1,836)	(2,262)	(2,625)	(2,915)
Net cash from operations	2,136	3,114	6,024	8,006	9,226
Capital expenditure	(1,835)	(601)	(3,000)	(2,000)	(2,000)
Sale of investments	(1,836)	(2,971)	(3,500)	(3,500)	(3,500)
Net cash from investing	(4,517)	(4,070)	(6,819)	(5,851)	(5,886)
Issue of shares	-	-	-	-	-
Increase in debt	2,218	(964)	535	400	400
Dividends paid incl. tax	-	(128)	(128)	(128)	(128)
Net cash from financing	2,436	(1,853)	(1,004)	(1,278)	(1,278)
Net Cash	55	(2,809)	(1,800)	876	2,061
Opening Cash	6,822	6,877	4,068	2,269	3,145
Closing Cash	6,877	4,068	2,269	3,145	5,206

Source: Company, Nirmal Bang Institutional Equities Research

Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
23 April 2020	BUY	123	210
27 May 2020	BUY	103	210
29 June 2020	BUY	139	236
9 July 2020	BUY	146	236
31 August 2020	BUY	169	241
23 September 2020	BUY	163	257
24 September 2020	BUY	163	257
6 October 2020	BUY	161	257
4 November 2020	BUY	169	257
6 January 2021	BUY	184	272
8 February 2021	BUY	250	348
28 June 2021	BUY	246	337
12 August 2021	BUY	309	356
16 November 2021	BUY	327	431
18 February 2022	BUY	279	431
31 May 2022	BUY	251	435
10 August 2022	BUY	258	381
19 September 2022	BUY	275	400
16 November 2022	BUY	256	400
13 March 2023	BUY	290	375

Rating Track Graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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