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October 2019

PNC INFRATECH LIMITED

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PNC Infratech Limited

India Equity Analytics 22-Oct-19 Company Update

Industry	**Eng. & Cons.**
Bloomberg	**PNCL IN**
BSE CODE	**539150**

Robust Order Book along with In-house execution ability will drive the Growth

RATING	BUY
CMP	170
Price Target	234
Potential Upside	37%

STOCK INFO	
52wk Range H/L	219/124
Mkt Capital (Rs Cr)	4360
Free float (%)	34%
Avg. Vol 1M (,000)	150
No. of Shares (Cr.)	26
Promoters Pledged %	0

Fig in Rs Cr

	FY19	FY20E	FY21E
Net Sales	3097	5258	6783
EBITDA	457	857	936
PAT	325	510	555
EPS (Rs)	13	20	22
EPS gr %	30%	57%	9%
ROE (%)	15%	20%	18%
ROCE (%)	15%	24%	23%
BVPS	82	101	121
P/B (X)	2	2	1
P/E (X)	14	9	8
EV/EBITDA (x)	10	5	5

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Key Highlights

- Robust order book of Rs 11885 Cr i.e 3.2x TTM revenue provides strong revenue visibility over next 2 years.
- Only Rs 935 Cr of order is under development, rest all the projects are under construction and actively contributing in the revenue.
- Over the last couple of years company has invested resources to build the execution capabilities. Currently company has gross block of Rs 1066 Cr which is able to execute work up to Rs 5000 Cr in year. PNCINFRA has workforce of 8231, including workers on subcontracting basis.
- Comfortable Debt to Equity with internal support to fund Equity requirement provides strength to Balance Sheet.
- Company's focus is on Asset light business model, PNCINFRA has sold out its one BoT project and in dialog with 2-3 investors to sell 6 under construction HAM projects.
- RoE to improve by 250 bps over next 2 years partially by the improvement in assets turnover and partially by lower corporate tax rate.
- Given the current fundamentals we feel the current valuation level is attractive to enter.

Robust Order Book provide Strong Revenue visibility over next 2 years

Current order is Rs 11885 Cr, i.e 3.2x of the TTM revenue. Out of the total order book, 92% orders are under construction and actively contributing in revenue. Only one HAM project worth Rs 935 Cr is under development and waiting for the appointment date. On the other hand most of the other players are facing delay in appointment date due to slow progress on land acquisition. The higher operational order book ensures the sustainable revenue growth over next two years.

Strong revenue growth supported by In house execution capabilities

Over the years PNCINFRA has build in house execution capabilities by investing resources into equipments and manpower in order to maintain quality of the work and to execute projects within the stipulated time frame. As on 30th June 2019, company has gross block of Rs 1066 Cr, which is capable to execute work up to Rs 5000 Cr per annum with the help of 8231 workforce. In last 3 years company has added new equipments worth Rs 580 Cr. Similarly company has added 3468 workforce to ensure timely completion of the projects. Based on the in house execution capabilities and availability of 80% plus land on the all the projects, we have expects revenue growth of 70% and 29% in FY20 and FY21 based on the current order book.

View and Valuation

The future outlook for the Indian roads and highway sector is stronger than past and PNCINFRA is placed better among the other players. PNCINFRA's robust order book with 92% of orders under construction ensures the robust revenue visibilities. With the proven execution strategy we are confident about the future growth of the business.

PNCINFRA's growth prospectus is far better than the past. From the IPO in 2015 to 2019 company's sales has grown at 19% CAGR with average RoE of 14.5%. Now going forward we expect the sales CAGR will be 48% and RoE to improve by 250 bps over next 2 years partially by the way of improvement in assets turnover and partially by lower corporate tax rate.

Currently stock is trading at 8x FY21E EPS, which is lower than its last 4 years average multiple and we feel its attractive point to enter based on the given fundamentals. We value the stock on SoTP basis (EPC business at 9x FY21E EPS and Rs 39 per share for investment into BoT/HAM) at Rs 234 per share and recommend BUY.

Macro & Industry:-

The Government has vision to make India a $5 trillion economy by 2025. To fulfil the agenda government has constitute high level committee and has plan to invest Rs 100 lakh Cr over next 5 years. Government has identifies certain sectors like Roads and Highway, Metro, Smart Cities, Development of Airports, Inland waterways and Renewable Energy.

Roads and Highways: Government has announced Bharatmala Pariyojana Program to develop roads and highways nationwide. Under the program 65000 Km of highways at the cost of Rs 7 lakh Cr will be developed and out of it 34800 km of road projects has be finalised under phase I at estimated investment of Rs 5.35 lakh cr.

Metro: Metro projects in various cities have been announced like Kochi, Ahemdabad, Kanpur, Nagpur, Noida, Navi Mumbai, Pune, Bhopal, Indore, etc. Currently 600 km of metro line is under construction which will be operational in next five years and about 1000 km of metro line proposals are under planning stage.

Smart City: Smart City project is taken as mission by government to develop 100 cities as smart cities at the cost of Rs 2 Lakh Cr. Till the January 2019, Government has tendered out Rs 105780 Cr worth of projects, of which work order has been issued on Rs 62652 Cr. Around Rs 11040 Cr worth of projects are completed.

Airport: Government has planned to establish about 100 airports in the next 15 years at an estimated cost of Rs 4 lakh crore. Among them, 70 airports will be at new locations while the rest will be second airports or expansion of existing airfields to handle commercial flights.

Inland Waterways: To efficiently use inland waterways, government has added 106 inland waterways to existing 6 National waterways. JAL MARG VIKAS, the National Waterways phase I was approved on 12th April 2017 with the total cost of USD 800 Mn.

Renewable Energy: As the economy grows the electricity consumption is projected to reach 15,280 TWh in 2040 from the 4926 TWh in 2012. Most of this demand would come from the growth in the buildings, industry and transport sectors. By 2028, India can see renewable energy investments worth US$ 500 Bn. Government plans to establish renewable energy capacity of 500 GW by 2030.

Huge Investment required in Roads & Highways

Bharatmala Pariyojana Program

Bharatmala Pariyojana is the umbrella project for the development of roads and highways. Under the program total 65000 km of roads network will be developed at an investment cost of Rs 7 lakh Cr. The Cabinet Committee on Economics affair has approved the Bharatmala Pariyojana Phase-I on 24th October 2017 for the development of 24800 km of roads network addition with 10000 km of balance road work under NHDP. The total investment required for the phase-I is Rs 5.35 lakh Cr.

Exhibit 1: Bharatmala Pariyojana Phase- I Planned Capex and Progress

Under the phase I total 34000 km of road projects have identified and will developed

Components	Planned Capex		Awarded Till 2017-2018		
	Length (in Km)	Outlay (in Rs Cr)	No.of Projects	Length (in Km)	Outlay (in Rs Cr)
Economic Corridors Development	9,000	12,000	34	1,548	42,675
Inter Corridors & Feeder Routes	6,000	80,000	5	194	3,883
National Corridors Effeciency Improvement	5,000	100,000	23	1,073	31,782
Border & International connectivity roads	2,000	25,000	6	973	4,563
Costal & Port connectivity roads	2,000	20,000	3	90	1,351
Expressways	800	40,000	5	124	11,302
Total Bharatmala Pariyojana	**24,800**	**277,000**	**76**	**4,002**	**95,556**
Balance road works under NHDP	10,000	150,000	39	1,755	40,304
Grand Total	**34,800**	**427,000**	**115**	**5,757**	**135,860**
PNC's Share				**190km**	

Since the approval of the program, NHAI has awarded 5757 km with capital outlay of Rs 1.35 Lakh Cr in 2017-18 and around 3000 km of projects in 2018-19. Currently NHAI has floated bids for the 43 EPC projects at project cost of Rs 29652 Cr and 28 HAM projects with total project cost of Rs 31532 Cr. With the successful launch of Bharatmala Phase-I, government is all set to roll out the 2nd phase. The government will develop 3000 km of expressways and 4000 km of Greenfield highways. The NHAI has appointed consultant for the preparation of the DPR. So the projects get awarded as soon as the projects under phase-I are bid out.

Low Penetration of 4/6 Lane Roads

India has road network of 56 lakh km, second largest in the world. But national highway road network is only 2% of the total network. Around 65% of the fright and 80% of the passenger's traffic is handled through national highways. And out of the National highway network, 75% of the national highways are 2 lanes or less than 2 lanes. So the existing highway networks are not capable to handle the fast growing traffic. So, India requires huge investment for the upgrading the road networks from 2 lane to 4/6 lane.

Exhibit 2: Lane wise breakup of NH

Lower Contribution of 4/6 lane highway in national highway network provides large opportunities

Lane Wise Break Up of NH %	2009	2010	2011	2012	2013	2014	2015	2016
< 2 Lane	29%	26%	24%	22%	21%	30%	32%	20%
2 Lane	53%	53%	52%	53%	54%	50%	47%	55%
4 Lane & above	19%	22%	24%	25%	24%	20%	22%	24%
Total (in Km)	**70548**	**70934**	**70934**	**76818**	**79116**	**91287**	**97991**	**101011**

Strong capex by the State Governments

Over the years investment by the State government has also picked up considerably in roads and highways. Some of the states like UP, Karnataka and Maharashtra are offering strong opportunities. In the state of UP some large projects like Bundelkhand Expressway (Rs 14000 Cr of total project cost), Gorakhpur Expressway (Rs 5600 Cr of total project cost) and Ganga Expressways (Rs 19358 Cr) are at advance stage of bidding.

KSHIP is the flagship program of Karnataka Government for the development of the state highways. Under the phase-3, government has identified total projects of 3400 km at projected cost of Rs 5300 Cr. Out of it 420 Km is already awarded with total project cost of Rs 2700 Cr.

Exhibit 3: Upcoming Major Projects in UP

Home State Uttar Pradesh offering some large highway projects

Project Name	Type	Estimated Cost (Cr)	Km Length	No of Pkg.	Execution Time Frame (In Months)	Land Avilability
Bundelkhand Expressway*	EPC	14000	296	6	30	90%
Gorakhpur Expressway	EPC	5600	91	2	30	48%
Ganga Expressway	EPC	19358	600	NA	NA	NA
Total		**38958**	**987**			

* bids is likley to open by the October 2019

Strong Budgetary Support:-

Over the last few years government's focus on development of roads and highways has increased considerably and as result of it the budgetary allocation has increased sharply. Strong budgetary support and conducive policy change has impacted the highway construction positively. Average Km per day completion has rose to 30 km a day in FY19 from 12 km a day in 2014-15. Based on the current environment we expect it will improve further.

Exhibit 4: Strong Budgetory Support…

Government focus clear on Infra development with strong budgetory support

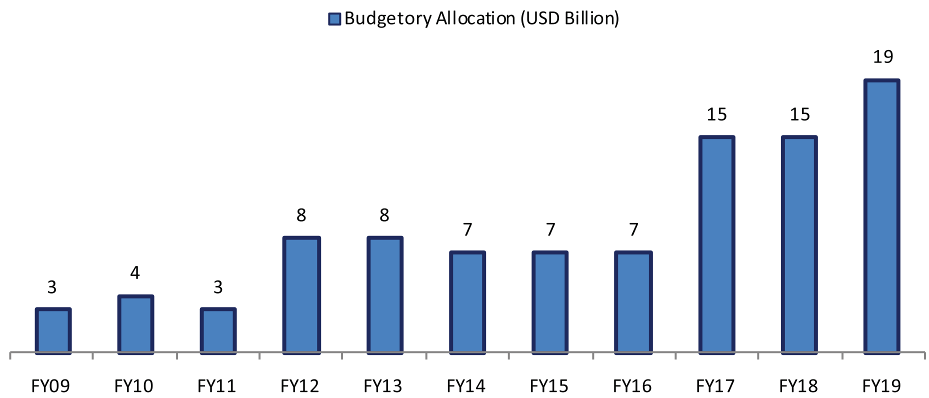
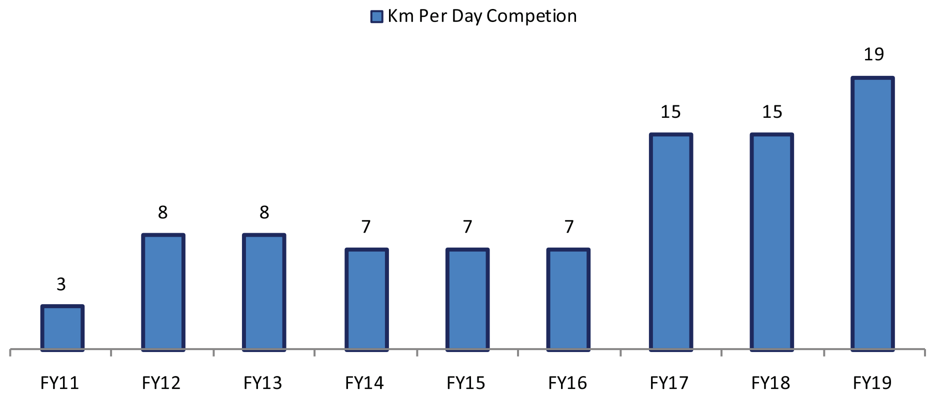


Exhibit 5: … result into higher construction per day (km)

Strong budgetary support and positive policy measurement led the robust growth in highway construction



Strong FDI Inflow in Roads and Highway

India is a growth story over the years and continuously attracting the foreign investments. Looking at the government's thrust on infrastructure development and policy reform; many foreign investors have started investing in the road projects actively in last 2 years. NHAI is actively monetising its road assets through ToT mode and private road developers are also partnering with private equity funds to unlock its investment into road assets.

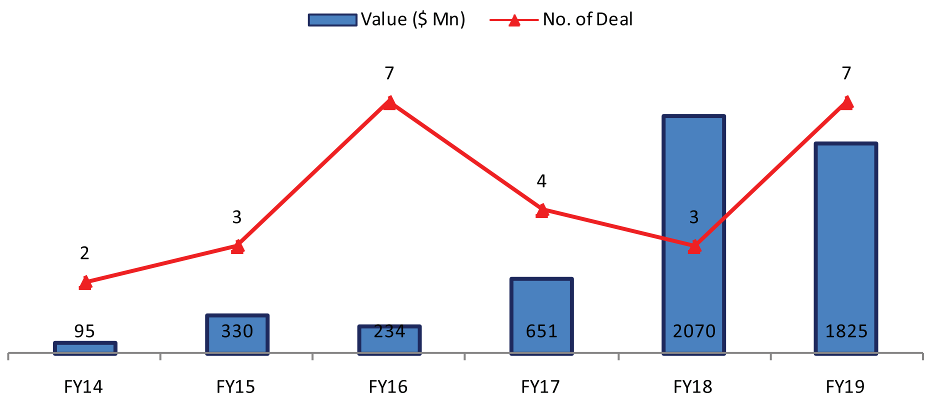
Last year NHAI has bid out the first ToT bundle of 9 operational road assets totalling 681 km to the Australia based private equity fund's infrastructure arm Macquarie Infrastructure and Real Assets (MIRA) for Rs 9681 Cr. After the grand success, now NHAI is looking to bid out another 2 bundle in the current year.

The stability in governments and the various governments' initiative to stabilise and develop the road sector has boosted the private equity funds confidence. The PE funds are now buying the operational as well as under construction road assets from private players. In the last year we have witness total 7 deals with aggregate investment of $1825 mn.

The Infrastructure segment is high capital intensive in nature and the positive support from the private equity will help to spur the growth. The investment by the PE funds will help Infra companies to deleverage its books and at the same time it allows companies to more projects at a time.

Exhibit 6: Foreign Investments In Road Assets

Investment by foreign funds picked up in last 2 years. FY18 includes first ToT project



Highlights of some of the Deals

Cube Highways purchased road assets from KNRCON, PNCINFRA and DBL

KNRCON has signed share purchase agreement with the Cube highways to sell its stake in 3 under construction HAM projects for consideration of Rs 262 Cr as against equity requirement of Rs 145 Cr, 1.8x the invested equity by KNRCON. Total equity requirement on these 3 projects is Rs 285 Cr and Cube will invest 49% during the construction phase. Post the CoD plus 2 years KNRCON transfer its 51% to the Cube highways.

PNCINFRA has signed share purchase agreement for sale of 35% stake in its BOT (Toll) project with Cube Highways. The sales consideration will be Rs 270 Cr in addition company will be recovering outstanding EPC receivables which would result into total cash inflow of Rs 300 Cr.

DBL has agreed to sell its 5 under construction HAM projects to Cube highways at equity valuation of Rs 702 Cr on required equity of Rs 568 Cr. DBL will invest 51% of the required equity and 49% by Cube during the construction period. Post the CoD plus 2 years DBL will transfer its 51% stake to Cube for the consideration of Rs 409 Cr, 1.4x of the invested equity.

GIC Singapore will invest Rs 4400 Cr in IRB

IRB will form a private InvIT and transfer 9 BoT assets (5 under construction) to the InvIT trust. The GI Singapore will buy 49% unit of the InvIT from IRB at Rs 4400 Cr and reaming 51% stake and management control will retain by the IRB. After the completion of the under construction projects InvIT will have enterprise value of Rs 22500 Cr (Rs 9000 Cr Equity and Rs 13500 Cr Debt). Rs 3000 Cr out the Rs 4400 cr will be used by trust to reduce external borrowing and reaming Rs. 1100 Cr will be used to fund equity requirement of the 5 under construction projects. InvIT (9 assets) will continue to part of the IRB's consolidated books as IRB has management control with 51% stake. The transaction will help IRB to save interest cost Rs 300-350 Cr annually. IRB and GIC will bid the future BoT and ToT projects in partnership.

IndInfravit Trust acquired assets from Sadbhav Eng.

IndInfravit Trust has acquired nine operational road assets from Sadbhav Infrastructure Projects Ltd (SIPL) a wholly owned subsidiary of Sadbhav Eng. at enterprise value of Rs 6610 Cr. Under the deal SIPL will transfer its entire equity stake to the trust and will receive Rs 2550 Cr (Rs 1900 Cr in cash and Rs 650 Cr of IndInfravit Trust units) as against equity investment of Rs 1500 Cr.

About PNCINFRA

Introduction of the Company

PNC Infratech is the infrastructure construction, development and management company based in Agra, UP. The company has rich experience and proven execution capabilities in the execution of highways, bridges, flyovers, power transmission lines, airport runways, industrial area development and other infrastructure projects. It is also Military Engineering Services qualified company for Airport Runway projects. Recently company has completed Airport Runway at Bakshi Ka Talab Lucknow. Further the Company is eyeing projects form Airport modernization. Currently, the company manages 5 BoT (Toll and Annuity) projects and 1 Industrial development project.

Company has been taking up projects under EPC and BOT/HAM model. Till date PNC has completed 65 major Infrastructure projects across the 13 states. Out of it 42 projects were on EPC. Currently 20 projects are under execution. In 2005, Company has executed first international airport runway project for Kolkata Airport. In 2007, Company has received first BoT project from Madhya Pradesh Road Development Corporation. Till date company has received and executing largest order in terms of projects cost (Rs 2159 Cr) on HAM mode from Chakeri to Allahabad (6 lane project). Currently company is executing 6 projects on 6 lane and another 6 projects on 4 lane bases. Remaining projects are on 2 lane basis. Company's execution capabilities are strong, which help company to complete projects on or before the scheduled CoD.

EPC Business

Under the EPC segment company take up third party EPC work of Roads and highways, Bridges Airport runway and captive EPC projects (EPC work of own HAM/BoT projects). Company has robust order book of Rs 11885 Cr as on June 30, 2019 and out of it projects worth Rs 6256 Cr are third party (NHAI, UPEIDA and others) EPC projects and reaming are captive EPC projects.

Exhibit 7: Key Outstanding Projects

Current order on Rs 11885 Cr provides strong EPC revenue visibilities over next 2 years

Project Name	Type	State	State	EPC Cost	O/S Portion	% Completion	Completion
Nagpur - Mumbai Experssway	EPC	Maharastra	Under Construction	2,000	1,909	5%	91.0
Purvanchal Expressway, Pkg-V	EPC	UP	Under Construction	1,566	1,325	15%	241.0
Purvanchal Expressway, Pkg-VI	EPC	UP	Under Construction	954	847	11%	107.0
Nagina - Kashipur	EPC	UP	Under Construction	1,156	750	35%	406.0
Chitradurga – Davanagere	HAM	Karnataka	Under Construction	1,207	680	44%	527.0
Jhansi - Khajuraho (Pkg I)	HAM	MP	Under Construction	1,213	710	41%	503.0
Jhansi - Khajuraho (Pkg II)	HAM	MP	Under Construction	1,118	581	48%	537.0
Chakeri - Allahabad	HAM	UP	Under Construction	1,866	1,665	11%	201.0
Aligarh - Kanpur	HAM	UP	Under Construction	1,033	915	11%	118.0
Challakere -Hariyur	HAM	Karnataka	Under Development	935	935	0%	-

Assets Development Business

Company has portfolio of 7 operation BoT (Toll and Annuity) projects. The annual toll collection is Rs 720 Cr in FY19 excluding project in JV. Ghaziabad Aligarh is the BoT toll project in state of Uttar Pradesh and is in JV with SERI and Galfar. PNCINFRA hold 35% stake in the projects. Company has signed share purchase agreement with Cube Highways to sell its 35% stake in the project. The proceed of Rs 300 Cr including outstanding EPC receivables and Share warrant is likely to received in FY20.

Currently company is developing 8 HAM projects, 7 out of it are under various stage of construction and reaming 1 is awaited for the appointment date. The pending equity requirement is Rs 550 Cr, which is likely to invest over period of 2-3 years. The management is actively looking to monetize the assets and in discussion with 2-3 investors.

Exhibit 8: Operational Assets

Project Name	% Stake	Type	State	Km/Lanes	TPC (Rs Cr)	Invested Eq. (Rs Cr)	PNC Share	Debt as on 30th June 2019
Ghaziabad Aligarh*	35%	Toll	UP	124 / 4	2,019	194	68 / 118#	998
Kanpur Kabrai	100%	Toll	UP	132 / 2	459	68	68	185
Gwalior Bhind	100%	Toll	MP	108 / 2	340	78	78	185
Bareily Almora	100%	Toll	UP	54 / 4	605	75	75	430
Rae Bareli	100%	Annuity	UP	166 / 2	838	140	140	605
Narela Industrial Area	100%	Annuity	Delhi	33 / -	175	35	35	78
Kanpur Ayodhya	100%	OMT	UP	217 / 4	-	0	0	-
					4,435	589	463^	2,481

*Company has sold its stake (35%) to Cube Highways # Warrents ^ Equity Invested excl. Warrent

Exhibit 9: Under Construction Assets

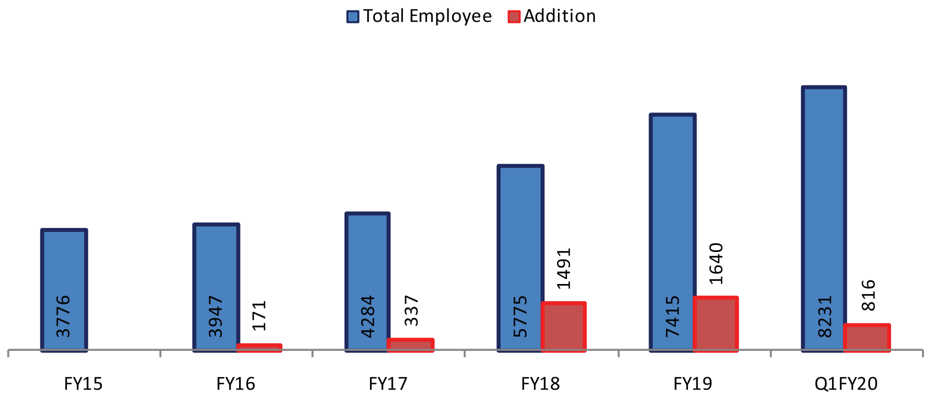
Project Name	% Stake	Type	State	Km/Lanes	TPC	Invested Equity	Debt as on 30th June 2019	% Completion
Dausa - Lalsot	100%	HAM	Rajasthan	83.45 / 4/2	820	65	261	83%
Chitradurga – Davanagere	100%	HAM	Karnataka	72/ 6	1,207	55	245	44%
Jhansi - Khajuraho (Pkg I)	100%	HAM	UP	76/ 4	1,213	74	191	41%
Jhansi - Khajuraho (Pkg II)	100%	HAM	UP	85/ 4	1,118	58	233	48%
Chakeri - Allahabad	100%	HAM	UP	145/ 6	1,866	11	-	11%
Aligarh - Kanpur	100%	HAM	UP	45 / 4	1,033	10	-	11%
Challakere - Hariyur	100%	HAM	Karnataka	55/ 4	935	8	-	0%

Strong In – house Execution Team....

Over the years company has established its strong execution capabilities based on the in-house execution team. The current employee base is 8231 including workforce on subcontracting basis. In last 3-4 years, management has focused on strengthening in-house execution team. As result of it Subcontracting cost has come down from 36% to 20% in FY17 from FY15. It has further come down in FY19. As result of it operating margin has improved from 12.3% in FY14 to 14% in FY19 (ex bonus). In last 3 years company has added 3468 workforce to strengthen the in house execution capability.

Exhibit 10: Workforce and Addition Year on Year

In last 2 years (incl. Q1FY20)company has added workforce of 3947 which is 48% of the current total strength.



..And Investment in Equipment Bank....

Management has realized the importance of the equipment availability for better execution of the projects and started investment into gross block. Currently company has gross block of Rs 1066 Cr which is able to generate revenue up to Rs 5000 Cr. The gross block includes all the critically important machineries.

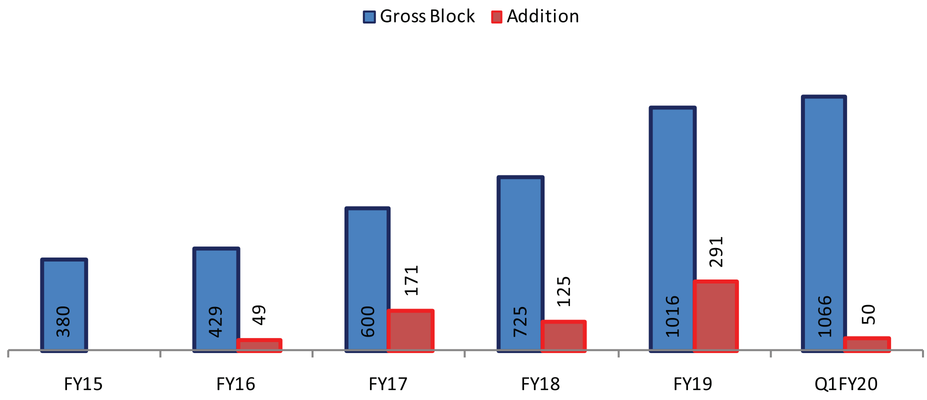
Exhibit 11: In-house Equipment

PNCINFRA owns all the critically important machinery

Name of Machinery	OEM	Quantity
Heavy Duty Vehicles	Ashok Leyland, Tata Motors	1,207
Diesel Generators	Cummins/Jackson, Sudhir, Kirloskar, A/L, Greaves, Prakash, Escorts	469
Light Duty Vehicles and Attachments	Mahindra, Tata, Farm Trac, John Deere	399
Passenger Vehicles	Toyota, Mercedes, Tata, Mahindra, BMW	143
Backhoe Loader	CAT, JCB	132
Storage Tank	--	125
Weigh Bridge upto 100 Ton	Ashbee/ Vishwakarma/ Jyoti Weighing	125
Wheel Loaders	CAT, HM, Liugong	110
Soil Compactors	Escorts, Greaves, IR, Volvo, HAMM	108
Hydraulic Excavators	Komatsu, CAT, Volvo, Dozco	107
Air Compressor (Upto 350 CFM)	IR, Local	92
Vibratory Tandem Rollers	IR, HAMM, Dynapac	83
Paver Finisher (Concrete / Bituminous / Slipform)	Voegele, Wirtgen, Volvo, IR, Apollo, Multiquip	80
Motor Grader and Dozers	CAT, Volvo, Sany, SEM	78
Concrete Batching Plant & Concrete Mixture	Schwing Stetters, Universal, Allen Buildwell	64
Tower Light	Bellstone, IR, Akshay Patra, Prakash	56
Cranes (Goliath, Tower, Hydra)	Alpha, CAT, Escorts	51
Tar Boiler/Bitumen Distributor	Local, Apollo, Allwin	44
Broomer	Apollo, Allwin	42
Crusher Plants & Sand Screen/Washing Plant	Metso, Terex, Local, Wier Minerals	35
Static Roller / Plate Compactors	Atlas Copco, Local	34
Kerb Paver	Apollo, Arrow, Roadtech	24
Concrete Pump and Placer	Schwing Stetter, Putz, Greaves, Surilla	22
Hot Mix Plants	Apollo, Linnhoff, Speco, Shiv Shakti	21
Wet Mix Plants	Apollo, Everest, Shiv Shakti	21
Chilling Plant	Schwing Stetter	13
PTR	HAMM, IR, Greaves	12
Milling Machine	Wirtgen	3
Gross Block*		Rs. 1,066 crores

Exhibit 12: Gross Block and Addition Year on Year

For the year FY20 company has plan to add gross block of Rs 120-125 Cr



...led to improvement in EBITDA Margin

The investment into equipments and continuous process to build in house execution capabilities has lower down the dependency on the third party for the projects execution. The subcontracting expenses have come down from 32% of the sales in FY14 to 18% in FY19. As result of it operating margin (ex bonus and arbitration claim) has improved from 12.3% in FY14 to 14% in FY19. Additionally, In house execution and own equipment provides greater control over the execution timeline and work quality. As result of it company is able to complete the projects on and before its schedule time and earn early completion bonus. During the FY18 and FY19 company has received early completion bonus of Rs 58 Cr and Rs 25 Cr respectively.

Exhibit 13: EBITDA Margin (Ex Bonus/Arbitration claim)

In house execution strategy with own equipments provides operating benefit

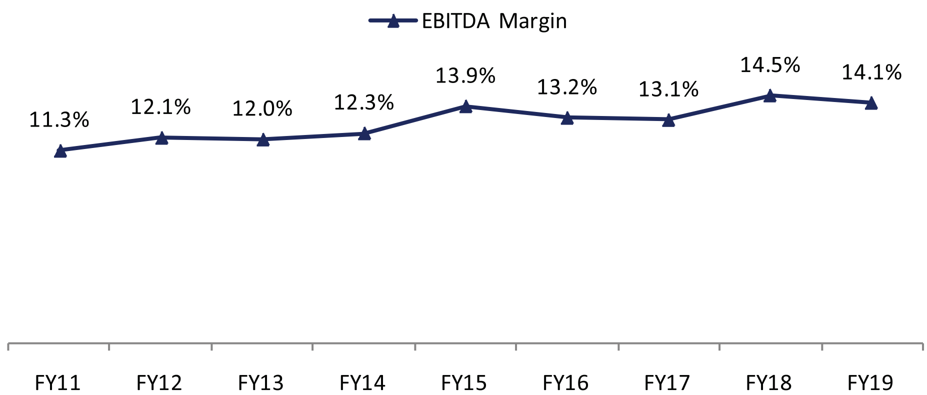
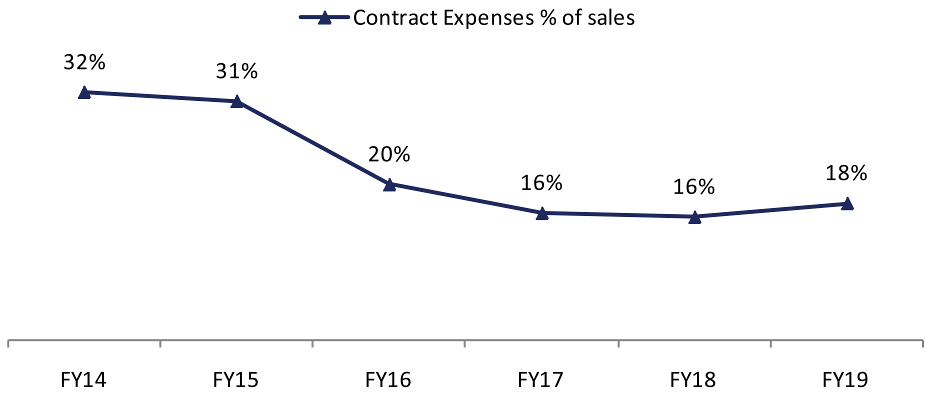


Exhibit 14: Sub Contracting Expenses % of Sales

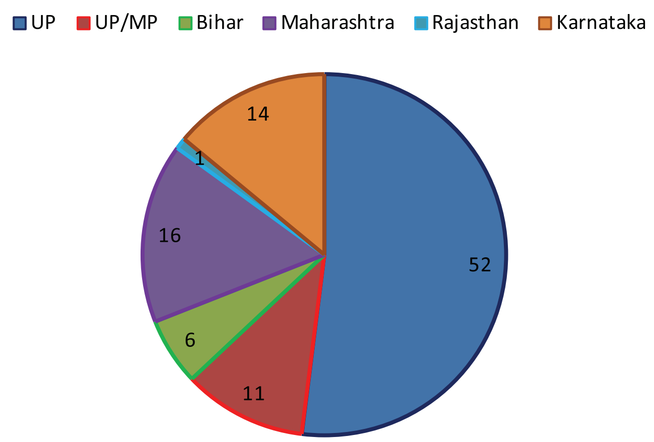


Mainly Operate into North India

Company has executed projects across the 13-14 state but the large chuck of the order book is from North part of the country. The focus is on the north India especially in UP/Bihar and the strategy has paid the strong rewards. 63% of the current order book is from UP/Bihar. Company is able to complete the projects before schedule time in its home state as it is placed better and the understanding of the cluster is high. Though, the concentrated order book strategy is also risky once the orders start drying out. But currently UP and Bihar is offering strong opportunities both from national highway and state highway projects.

Exhibit 15: Geographical Order Book Breakup (Q1FY20)

Major order book is from UP followed by Maharashtra and Karnataka



Focus on Assets light business Model

Management's approach towards the business is to keep balance sheet assets light. Company has limited exposure on the BoT assets. Currently company has 6 operational assets. 3 out of it are BoT toll & remaining 3 are on Annuity (2 assets) and OMT assets and holding 1 BoT Toll assets with JV partner. Currently company has 7 HAM projects, 6 are under construction and 1 is awaited for the appointment date. Company's debt to equity is 1.2x on consolidated books and 0.13x on standalone books, one of the best in Industry.

Company has sold its equity stake in one of the assets with JV. Going ahead management is not very keen to participate for BoT projects. The proceeds of Rs 300 Cr are expected from the sales of BoT assets in JV and will use it to fund equity requirement of ongoing HAM projects. Management is also in dialog with 3-4 investors to sale its stake on under construction HAM projects.

Investment Rational

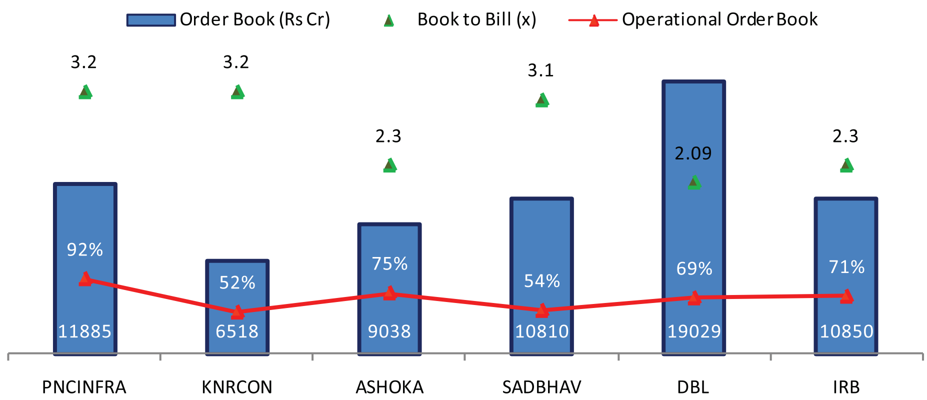
Robust Order book with strong bid pipeline

Current order is Rs 11885 Cr, i.e 3.2x of the TTM revenue. The current order book is one of the highest in the industry. Additionally, 1 lakh Cr worth of projects are in pipeline majorly on EPC and HAM mode. The bidding is expected to pick up from H2FY20.

The most important thing is that, 92% of the orders are under construction, which is the highest in the industry. Only one HAM project worth Rs 935 Cr is under development and waiting for the appointment date. Most of the other players are facing delay in appointment date due to delay in land acquisition. The highest operational order book ensures the sustainable strong revenue growth going forward. Current bid pipeline is also looks strong as the 3 large projects total worth Rs 39000 Cr is in advance stage of bidding in the home state UP only. Out of it Rs 14000 Cr worth of Bundelkhand Expressway is likely to award by October end and we expect PNCINFRA will win at least one package (average package size is Rs 2500 Cr). NHAI has also floated the bids for the projects worth Rs 60000 Cr and bid activity is likely to pick up from H2FY20.

Exhibit 16: Order Book Analysis

For PNCINFRA, 92% orders out of the total order book of Rs 11885 Cr is under construction, which is highest amongst its peers



Strong Execution ability will ensure strong revenue growth over next 2 years

Over the years management has understand the importance of in house execution capability and equipment to ensure timely completion of projects and has invested in both the aspects. As on 30th June 2019, company has gross block of Rs 1066 Cr, which is capable to generate revenue up to Rs. 5000 Cr. In last 3 years company has added new equipments worth Rs 580 Cr. Similarly company has workforce base of 8231 including workforce on subcontracting basis to ensure timely completion of the projects. Based on the in house execution capabilities and availability of 80% plus land on the all the projects, we have expects revenue growth of 70% and 29% in FY20 and FY21 based on the current order book.

Comfortable Debt to Equity with internal support to fund Equity Requirement

Current debt to equity is at 0.13x on std books and 1.2x on consolidated books. The debt to equity on Std. book will continue to remain at comfortable level (0.3x) as the capex requirement will partially fund internally and mobilization advances will take care of working capital.

Based on the current order book, equity requirement is Rs 550 Cr over next 2-3 years. The equity requirement is likely to fund internally. Company has received arbitration claim of Rs 145 Cr in Q2FY19 and bonus of Rs 16 Cr is expected to receive in H2FY20. Additionally, Rs 300 Cr is expected to receive in H2FY20 from assets sale transaction (Rs 62 Cr as Equity, 190 Cr of Loan and Warrants and 62 Cr of outstanding EPC receivables).Further, Management is also in talk with investors to sale it's under construction HAM projects as and when it gets operational. Equity requirement will be half if the deal gets materialized.

Exhibit 17: Consolidated and Standalone Debt/Equity

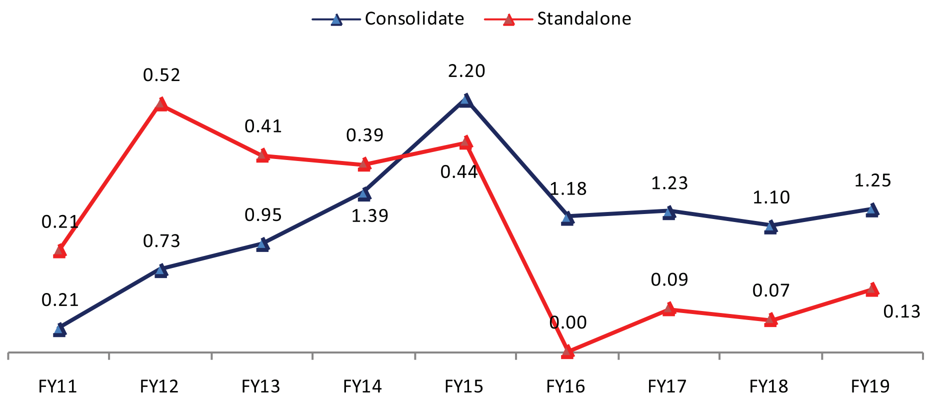


Exhibit 18: Equity Requirement

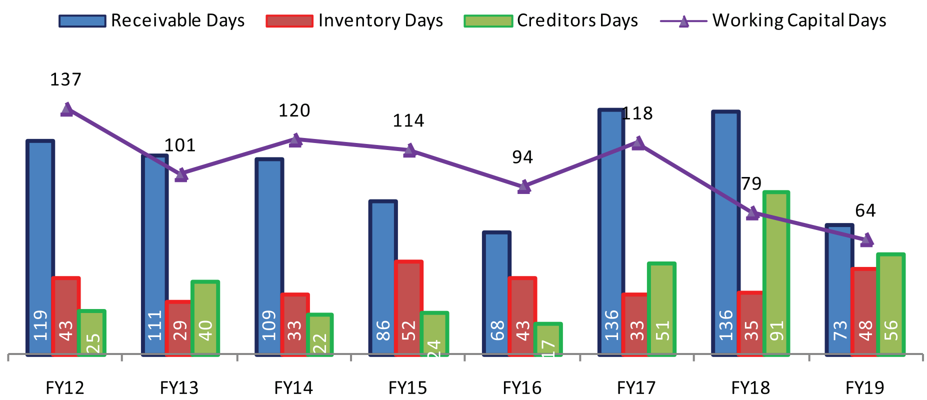
Management is in discussion with 2-3 investors, equity requirement will be half if the deal materializes

Equity Requirment Schedule	Projects Cost	EPC Cost	Appointment Date	Total Equity Requirement	Equity Invested till 30th June 2019	Remaining Equity Requirement
Dausa-lalsot-Kauthun	881	745	31-May-17	77	65	12
Chitradurga - Davanagere	1434	1207	27-Dec-17	125	55	70
Jhansi-Khajuraho section of NH 75 (Package I)	1410	1213	14-Feb-18	123	74	49
Jhansi-Khajuraho section of NH 75 (Package II)	1310	1118	14-Feb-18	114	58	56
Chakeri to Allahabad section of NH - 2	2159	1866	12-Jan-19	188	11	177
Aligarh-Kanpur section of NH - 91	1197	1033	21-Feb-19	104	10	94
Challakere to Hariyur section of NH 150A	1157	935	Awaited	101	8	93
Total				**831**	**281**	**550**

Improving working capital

Working capital days has improved from 122 days in FY13 to 70 days in Q1FY20 mainly on account of better collection. Over the years average project size has increased and as result of it no. of operation sites has reduced. Lower numbers of operational sites help to manage working capital better.

Exhibit 19: Working Capital Cycle



Improvement in Assets Turnover

The current order book is Rs 11885 Cr and out of it Rs 10995 Cr worth of projects are under the various stage of construction and will be completed in next 2 years. So the robust growth in revenue will result into improvement of assets turnover ratio. We expect the assets turnover will improve from 0.83x in FY19 to 1.07x in FY21E. The improvement assets turnover will provide the kick to the RoE. We expect RoE to improve by 250 bps over next 2 years partially by the improvement in assets turnover and partially by lower corporate tax rate.

Exhibit 20: Asset Utilization Efficiency

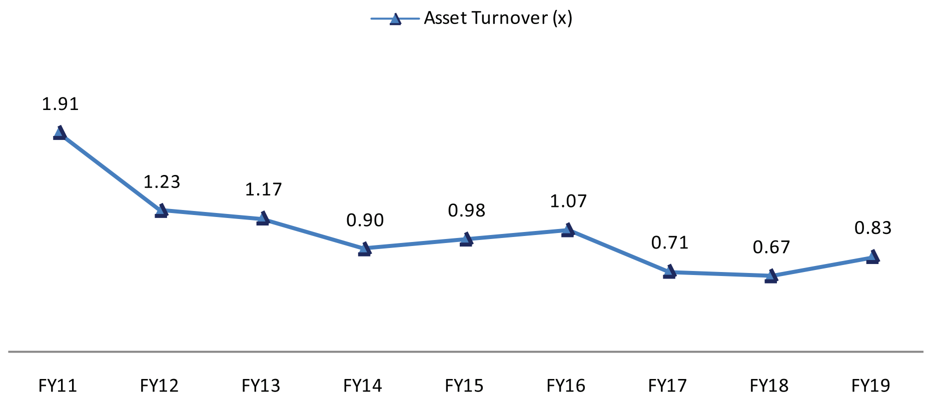
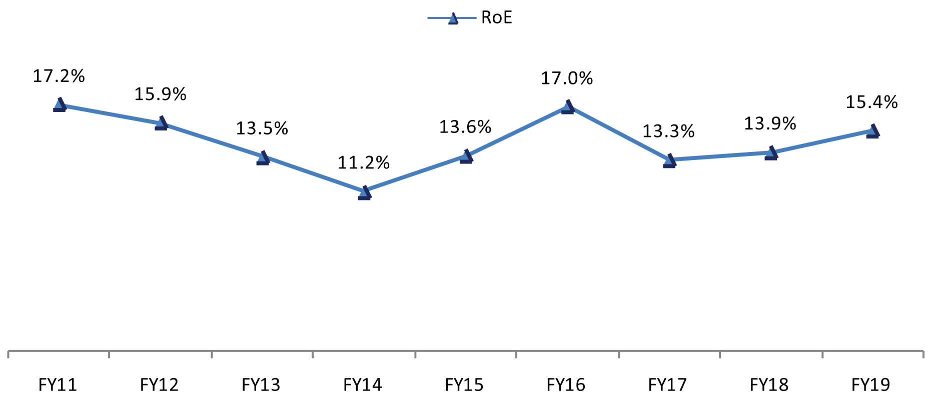


Exhibit 21: RoE will improve by 250 bps over next 2 years

On account of robust growth and lower corporate tax rate RoE is likely to improve by 250 bps from 15.4% in FY19 to 17.9% in FY21.



Peer Comparison

Parameter	PNCINFRA	KNRCON	ASHOKA	SADBHAV
Operating Parameter				
Order Book (Rs Cr)	11885	6518	9038	10810
Book to Bill	3.2x	3.2x	2.3x	3.1x
% of orders under construction	92%	52%	75%	54%
HAM/EPC (Order Book Breakup)	47%/53%	68%/32%	56%/44%	48%/52%
Gross Block (In Cr)	1066	1012	580	730
Signal large project (In Cr)	2159	1730	1687	1404
Signal large project (Km)	145 km/6 lane	61 Km/6 lane	56 Km /4 lane	138/2 lane
Signal large project (Lane)	6	6	8	8
Financial Parameter				
Revenue CAGR (last 3 years)	15%	33%	25%	4%
EBITDA M % (ex Bonus)	14%	20%	14%	12%
Debt to Equity (Std/Cons)	0.13/1.25x	0.2/0.5x	0.33/2.95x	0.67/10.76x
RoE (FY19)	15%	19%	13%	9%
RoCE (FY19)	15%	16%	15%	10%
Promoter's Share Pledge %	0%	0%	0%	33%

EBITDA Margin Comparison

KNRCON command the highest EBITDA margin on account of lower subcontracting and higher EBITDA margin in Irrigation projects. PNCINFRA has same strategy to do maximum execution in house and subcontract minimum and lower value work. While Ashoka and Sadbhav management believe in higher subcontracting and which reflect into the margin numbers. KNRCON and PNCINFRA are able to complete the projects ahead of schedule time and earn the early completion bonus. But Ashoka and Sadbhav are not able to do it because their dependency on third party is higher.

Exhibit 22: EBITDA Margins Comparison (Inc. Bonus)

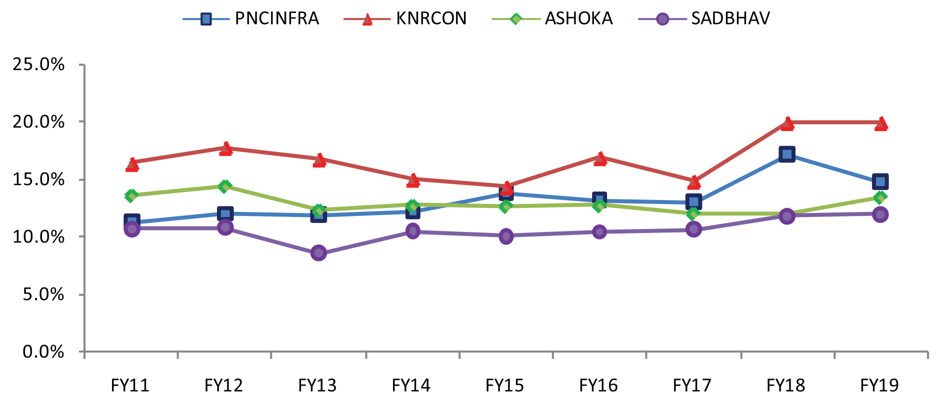
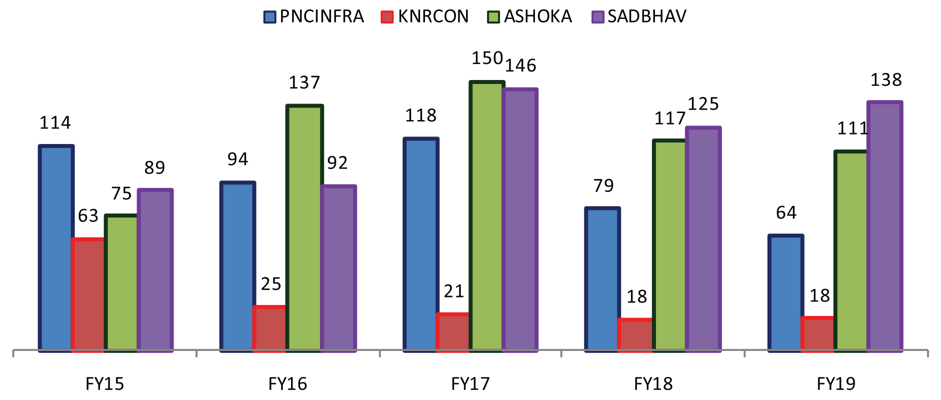


Exhibit 23: Working Capital Days Comparison



Comparison of Return Ratio	FY15	FY16	FY17	FY18	FY19
PNCINFRA					
RoE	13.6%	17.0%	13.3%	13.6%	15.4%
RoCE	23.7%	15.1%	23.7%	23.7%	15.2%
KNRCON					
RoE	12.5%	21.8%	17.6%	23.5%	18.6%
RoCE	10.7%	13.0%	16.2%	18.4%	15.7%
ASHOKA					
RoE	12.9%	9.5%	10.2%	12.3%	9.2%
RoCE	12.7%	9.9%	10.1%	11.7%	9.8%
SADBHAV					
RoE	8.4%	8.9%	11.3%	11.8%	9.2%
RoCE	9.5%	9.3%	8.0%	9.9%	9.8%

Key Risk

Land availability

In present situation land availability is the key risk for the roads and highway projects. 80% land is required to obtain appointment date from NHAI. Till date 30% of the projects which were awarded in FY18 are pending due to land unavailability. Recently NHAI has terminated 3-4 projects due to its in-ability to acquire the land. Though, the PNCINFRA has only one project of Rs 935 Cr is pending and likely to receive appointment date by December 2019.

NHAI's higher Debt could lead to slow down in new orders

Debt as on FY19 is 1.78 lakh Cr which is 4 times higher than Rs 40000 Cr in FY16. The large chunk of the project cost is gone into land acquisition, around 30%. Post the amendment in the land acquisition bill in 2015, the acquisition cost of the land has gone up to 3.4 Cr per hectare (in FY18) from 0.9 Cr per hectare in FY14.Currently NHAI is paying 3 times higher than the market price of the land. Further contingent liabilities which includes the Arbitration claim and other claim has also gone up in last couple years. This also increased the pressure on NHAI.

PMO has advices NHAI, do not construct highways aggressively and use PPP route for the funding the projects. This move may lead to slowdown in new orders and it may also lead to lower EPC projects in the future. EPC projects are the most preferable type of projects for the companies like PNCINFRA.

Though, In the recent media interaction, the Highway Minister Nitin Gadkari is believe that the construction of 4/6/8 lane projects are still economically viable even after considering the huge land acquisition cost.

Exhibit 24: NHAI's Debt

Debt has increased by 4 times from Rs 45270 Cr in FY16 to Rs 178000 Cr in Fy19

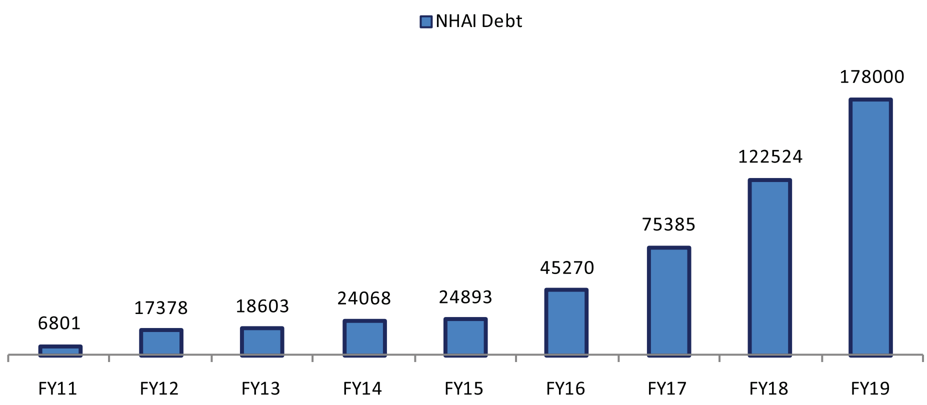


Exhibit 25: NHAI's Contingent Liabilities

Contingent liabilities has increase by 4x from Rs 14003 Cr in FY13 to Rs 55344 Cr in FY19

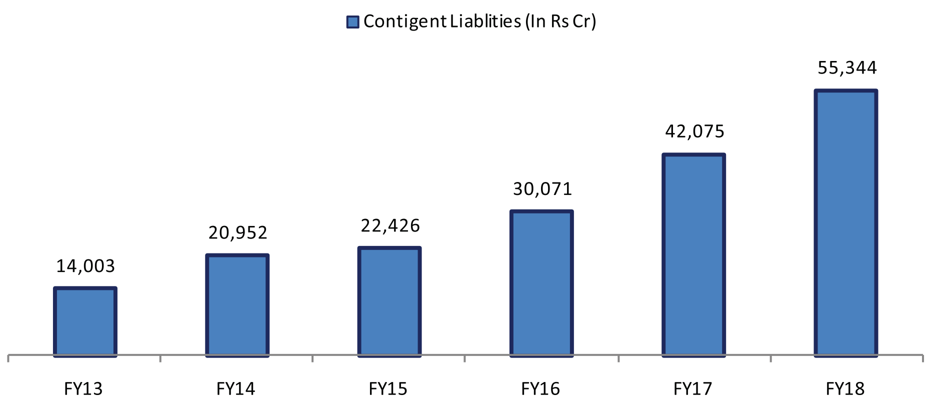
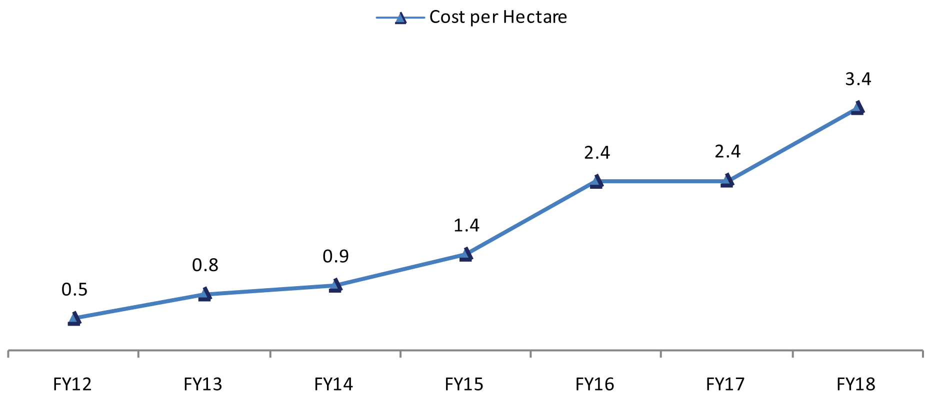


Exhibit 26: NHAI's Land acquisition cost per Hectare (in Rs Cr)

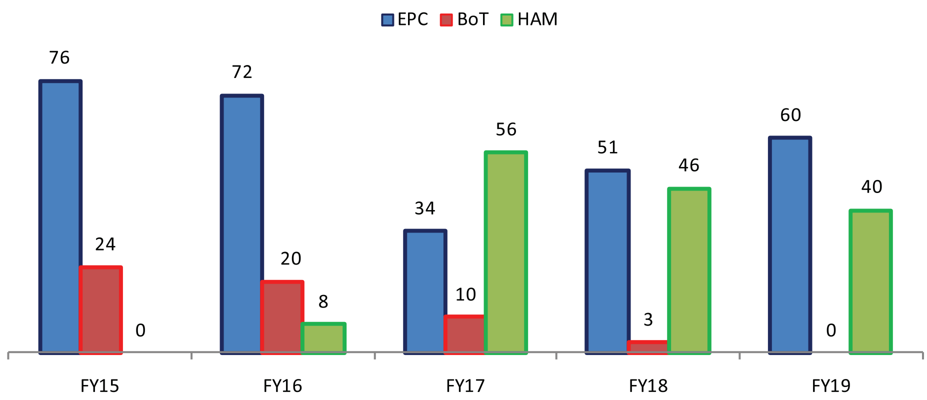
Land acquisition cost contributes around 40% of total funds deployed by NHAI in year



Low Interest in BoT projects by Road Developer

The role of private sector contribution in infrastructure development is significantly important as the government is not able to do it alone. But the current situation is not favourable as the most of the player's balance sheet is stretched and willingness is also low to participate in the roads and highway capex cycle. The BoT projects share in new projects award from NHAI has also significantly come down from 24% in 2015 to 3% in 2018 due stretched balance sheet and lower availability of credit. Additionally bankers are also cautious to fund the infra projects considering the higher risk attached to it.

Exhibit 27: NHAI's Tendering Pattern (In %)



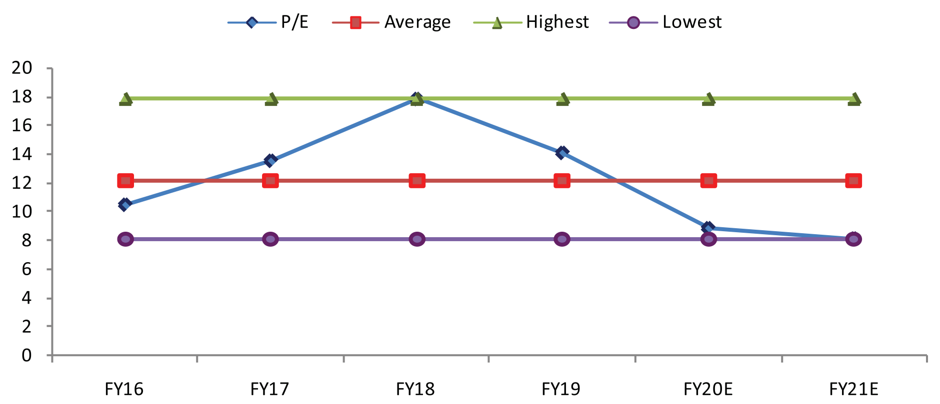
View and Valuation

The future outlook for the Indian roads and highway sector is stronger than past and PNCINFRA is placed better among the other players. PNCINFRA's robust order book with 92% of orders under construction ensures the robust revenue visibilities. With the proven execution strategy we are confident about the future growth of the business.

PNCINFRA's growth prospectus is far better than the past. From the IPO in 2015 to 2019 company's sales has grown at 19% CAGR with average RoE of 14.5%. Now going forward we expect the sales CAGR will be 48% and RoE to improve by 250 bps over next 2 years partially by the way of improvement in assets turnover and partially by lower corporate tax rate.

Currently stock is trading at 8x FY21E EPS, which is lower than its last 4 years average multiple and we feel its attractive point to enter based on the given fundamentals. We value the stock on SoTP basis (EPC business at 9x FY21E EPS and Rs 39 per share for investment into BoT/HAM) at Rs 234 per share and recommend BUY.

Exhibit 28: Price to Earning



Story In Charts and Tables

Exhibit 29: Quarterly Sales and Growth

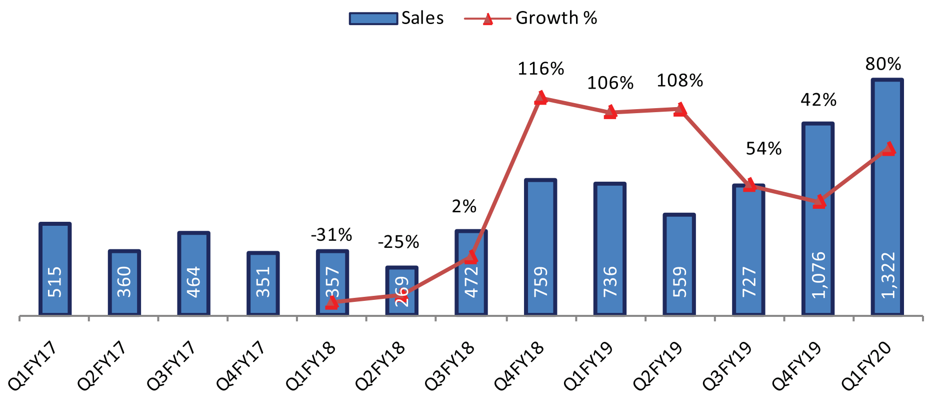


Exhibit 30: EBITDA and Margin

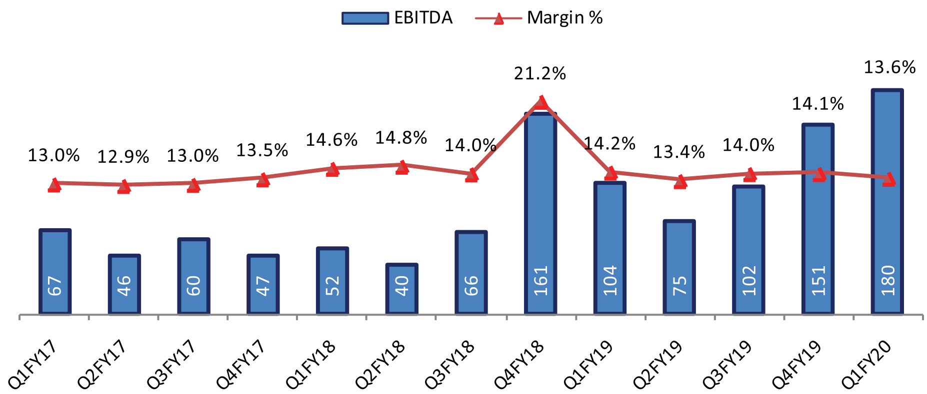


Exhibit 31: PAT and PAT margin

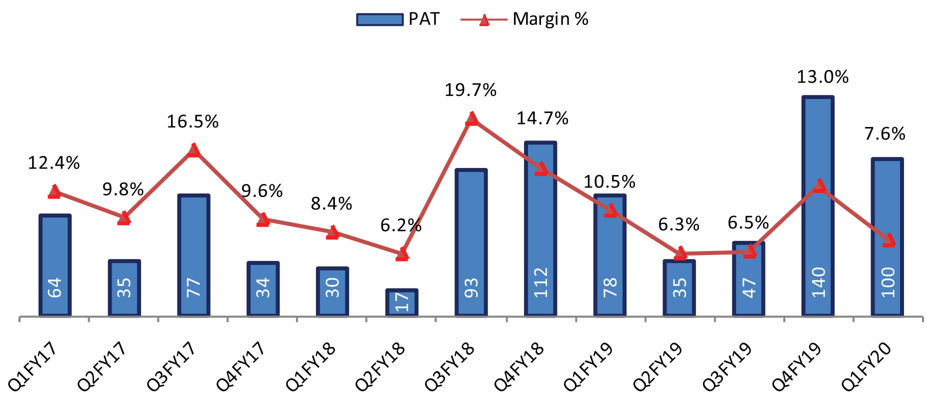


Exhibit 32: Order Book and Book to bill

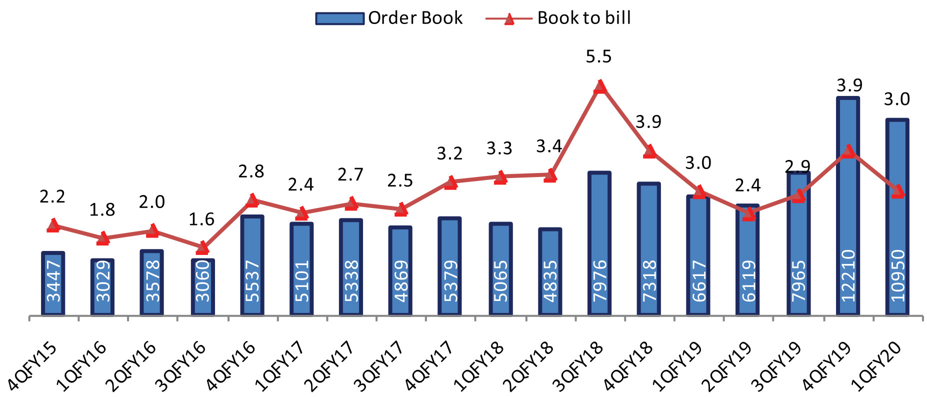
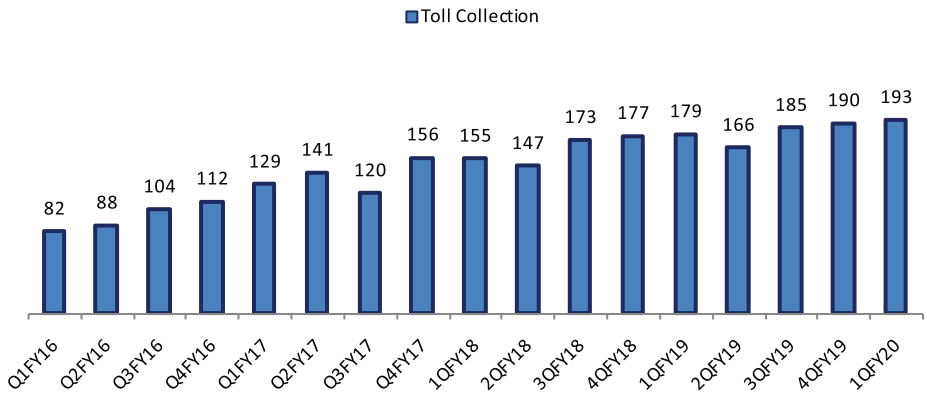


Exhibit 33: Toll Collection



O/S orderbook of Key Projects

Fig in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Nagina-Kashipur	1,156	1,132	1,094	1,000	949	866	820	750
Varanasi-Gorakhpur	785	745	654	574	538	445	377	333
Dausa-Lalsot	567	485	352	289	240	225	174	143
Aligarh-Moradabad	468	374	271	148	110	27	8	-
Bhojpur-Buxar	477	477	477	474	474	474	424	381
Koilwar-Bhopur	454	438	425	398	398	398	372	337
Chitradurga - Davanagere	1,207	1,207	1,157	1,073	930	818	768	680
Jhansi-Khajuraho pkg-I	1,213	1,213	1,162	1,090	1,031	954	825	710
Jhansi-Khajuraho pkg-II	1,118	1,118	1,072	985	939	836	678	581
Chakeri to Allahabad	1,866	1,866	1,866	1,866	1,866	1,866	1,866	1,665
Aligarh-Kanpur			1,033	1,033	1,033	1,033	1,033	915
Challakere to Hariyur				935	935	935	935	935
Nagpur mumbai				2,000	2,000	2,000	1,999	1,909
Lucknow - Ghazipur				1,566	1,566	1,566	1,467	1,325
Lucknow - Ghazipur pkg-6				954	954	954	930	847
Other Projects	928	787	654	586	510	402	469	374
Total Order Book	**10,239**	**9,842**	**10,217**	**14,971**	**14,473**	**13,799**	**13,145**	**11,885**

Toll Collection

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Kanpur - Kabrai	30	29	17	25	24	24	-16%	2%
Gwalior - Bhind	17	12	19	13	14	13	14%	-8%
Kanpur - Lucknow	77	86	78	96	100	102	19%	3%
Narela Industrial	10	10	10	10	10	11	14%	9%
Bareilly-Almora	11	11	9	9	10	10	-6%	4%
Ghaziabad Aligarh	51	52	51	54	53	55	5%	4%
Raibareli Jaunpur	32	32	32	32	32	32	0%	0%
Total	**228**	**232**	**217**	**239**	**243**	**248**	**7%**	**2%**

Financial Details (Standalone)

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	**1,152**	**1,561**	**2,014**	**1,689**	**1,857**	**3,097**	**5,258**	**6,783**
Change (%)	-12%	35%	29%	-16%	10%	67%	70%	29%
EBITDA	**142**	**217**	**266**	**221**	**319**	**457**	**857**	**936**
Change (%)	-9%	53%	23%	-17%	44%	43%	87%	9%
Margin (%)	**12%**	**14%**	**13%**	**13%**	**17%**	**15%**	**16%**	**14%**
Depr & Amor.	25	36	57	53	77	92	123	123
EBIT	**117**	**180**	**209**	**168**	**242**	**365**	**735**	**813**
Int. & other fin. Cost	23	46	40	20	31	64	78	99
Other Income	11	14	25	47	23	43	26	29
EBT	**104**	**148**	**194**	**194**	**234**	**344**	**682**	**742**
Exp Item	-	-	-	-	-	-	-	-
Tax	**34**	**47**	**(40)**	**(16)**	**(17)**	**19**	**172**	**187**
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	**70**	**100**	**235**	**210**	**251**	**325**	**510**	**555**
Adjusted PAT	**70**	**100**	**235**	**210**	**251**	**325**	**510**	**555**
Change (%)	-8%	43%	134%	-11%	20%	30%	57%	9%
Margin(%)	6%	6%	12%	12%	13%	10%	10%	8%

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	40	40	51	51	51	51	51	51
Reserves	589	696	1,327	1,521	1,755	2,064	2,545	3,047
Networth	629	736	1,378	1,572	1,807	2,115	2,596	3,098
Debt	248	324	6	147	129	284	654	826
Other Non Cur Liab	180	250	160	167	170	379	379	379
Total Capital Employed	877	1,060	1,385	1,720	1,935	2,399	3,250	3,924
Net Fixed Assets (incl CWIP)	154	217	214	356	418	622	624	650
Non Cur Investments	351	430	464	468	495	573	825	1,001
Other Non Cur Asst	98	112	243	432	468	545	545	545
Non Curr Assets	604	759	921	1,255	1,381	1,739	1,993	2,196
Inventory	105	223	236	153	176	404	685	884
Debtors	344	367	376	631	690	615	1,045	1,348
Cash & Bank	100	21	97	35	147	309	368	424
Other Curr Assets	128	124	119	123	148	188	319	461
Curr Assets	676	826	969	1,139	1,406	1,976	3,198	4,125
Creditors	70	101	94	237	463	474	792	1,022
Provisons	5	18	20	21	13	3	5	6
Other Curr Liab	148	157	231	249	206	461	783	1,010
Curr Liabilities	222	275	345	507	681	938	1,580	2,038
Net Curr Assets	454	551	623	632	724	1,039	1,618	2,087
Total Assets	1,280	1,585	1,890	2,394	2,786	3,716	5,191	6,321

Financial Details (Standalone)

Cash Flow

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	103	148	194	194	234	344	682	742
(inc)/Dec in Working Capital	74	(109)	(220)	(260)	19	(84)	(521)	(363)
Non Cash Op Exp	33	37	57	53	77	96	123	123
Int Paid (+)	23	46	33	15	31	63	78	99
Tax Paid	33	50	(39)	(16)	(17)	17	172	187
others	(5)	(8)	(12)	(29)	-	(36)	-	-
CF from Op. Activities	195	63	91	(9)	378	370	190	415
(inc)/Dec in FA & CWIP	(57)	(102)	(55)	(192)	(138)	(293)	(125)	(150)
Free Cashflow	138	(39)	36	(201)	240	77	66	266
(Pur)/Sale of Inv	(80)	(73)	(65)	(3)	(27)	(78)	(252)	(177)
others	3	9	48	33	-	(3)	-	-
CF from Inv. Activities	(133)	(165)	(79)	(171)	(165)	(351)	(376)	(376)
inc/(dec) in NW	-	-	417	-	-	-	-	-
inc/(dec) in Debt	21	78	(318)	141	(19)	205	370	173
Int. Paid	23	46	-	-	31	-	78	99
Div Paid (inc tax)	3	9	9	16	(16)	15	29	53
others	6	-	(33)	(15)	-	(63)	-	-
CF from Fin. Activities	0	23	57	110	-	127	262	20
Inc(Dec) in Cash	62	(79)	68	(70)	213	146	76	59
Add: Opening Balance	38	100	6	74	35	106	309	368
Closing Balance	100	21	74	4	248	252	386	427

Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	11%	14%	17%	13%	14%	15%	20%	18%
ROCE	18%	24%	15%	10%	12%	15%	24%	23%
Asset Turnover	0.90	0.98	1.07	0.71	0.67	0.83	1.01	1.07
Debtor Days	109	86	68	136	136	73	73	73
Inv Days	33	52	43	33	35	48	48	48
Payable Days	22	24	17	51	91	56	55	55
Int Coverage	5	4	5	8	8	6	9	8
P/E	-	-	10	14	18	14	9	8
Price / Book Value	-	-	2	2	2	2	2	1
EV/EBITDA	(1)	0	9	13	14	10	5	5
FCF per Share	35	(10)	7	(8)	7	3	3	10
Div Yield	NA	NA	NA	0.6%	0.4%	0.3%	0.5%	1.0%

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