

## PNC INFRA TECH LTD

Industry  
Bloomberg  
BSE Code  
NSE Code

Con. & Eng.  
PNCL IN  
539150  
PNCINFRA

10 August 2018

| RATING           | BUY |
|------------------|-----|
| CMP              | 165 |
| Price Target     | 206 |
| Previous Target  | 213 |
| Potential Upside | 25% |

## Stock Info

|                       |         |
|-----------------------|---------|
| 52wk Range H/L        | 228/130 |
| Mkt Capital (Rs Cr)   | 4244    |
| Free float (%)        | 34%     |
| Avg. Vol 1M (,000)    | 205     |
| No. of Shares (Crore) | 26      |
| Promoters Pledged %   | 0.0%    |

## Strong Execution Momentum likely to Continue

## Key Highlights

- ☑ The land availability on under development projects is above 80% and we expect company will receive all the necessary approval in time. We anticipate that the all the projects under current order book will start contributing in revenue from H2FY18 onwards and hence revenue growth is likely to remain strong going ahead.
- ☑ Management does not expect aggressive tendering from NHA1 in FY19. Despite this expect new orders of Rs.2000-3000 Cr balance period of FY19.
- ☑ Management is exploring assets monetization option to churn invested equity in BOT assets in order to fund equity requirement of Rs.750 Cr.

## 1Q FY19 Result:

PNCINFRA once again posted robust set of numbers in Q1FY19 on back of strong order book. Revenue was up by 106% YoY to Rs.736 Cr compared to Rs.357 Cr in last year. Revenue includes the bonus of Rs.25 Cr on account of early completion of Raebareli Jaunpur BOT Annuity project. As result of this EBITDA margin was improved by 300 bps. PAT was up by 243.9% YoY to Rs.102 Cr. During the quarter PNCINFRA has bagged new orders of Rs.3256 Cr and taking the order book at Rs.13229 Cr which is 6.1x of TTM revenue.

## View and Valuation

PNCINFRA has reported 100% plus revenue growth for straight second quarter on back of strong execution and we believe that the momentum will keep continue going ahead. Currently Road and highway sector is facing pressure in term of getting project financially closed. Though, the management is very confident to complete financial closure by Q3FY19 and expect to commence work on 3 HAM projects. Company is also evaluating assets monetization to fund equity requirement.

**We continue to like the stock but considering the pressure in terms of projects financing, we have reduce our valuation multiple and value PNCINFRA at Rs. 206 and maintain BUY rating on the stock. (Std. EPC business at Rs.166 (13x FY20 EPS) and Rs.40 per share for investment into BoT/HAM)**

## Key Risks to our rating and target

- ◆ Delay in appointment date
- ◆ Slow down in execution due to external factors

| KEY FINANCIAL/VALUATIONS | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|--------------------------|------|------|------|------|-------|-------|
| Net Sales                | 1561 | 2014 | 1689 | 1857 | 3059  | 4750  |
| EBITDA                   | 217  | 266  | 221  | 319  | 434   | 622   |
| PAT                      | 100  | 235  | 210  | 251  | 276   | 327   |
| EPS (Rs)                 | 25.2 | 46   | 8    | 10   | 11    | 13    |
| EPS growth (%)           | 50%  | 81%  | -82% | 20%  | 10%   | 18%   |
| ROE                      | 14%  | 17%  | 13%  | 14%  | 13%   | 14%   |
| ROCE                     | 0.2  | 15%  | 10%  | 12%  | 14%   | 17%   |
| BV per share             | 185  | 269  | 61   | 70   | 80    | 92    |
| P/B (x)                  | 0    | 1    | 2    | 2    | 2     | 2     |
| P/E (x)                  | 0.0  | 8.5  | 11.4 | 15.9 | 15.3  | 13.0  |
| EV/EBITDA (x)            | NA   | 7.3  | 11.0 | 12.6 | 10.1  | 7.2   |

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**1QFY19 Result Better than expectation**

| Financials          | 1QFY18     | 2QFY18     | 3QFY18     | 4QFY18     | 1QFY19     | YoY %       | QoQ%        | FY17         | FY18         | YoY %        |
|---------------------|------------|------------|------------|------------|------------|-------------|-------------|--------------|--------------|--------------|
| Net Sales           | 357        | 269        | 472        | 759        | 736        | 106%        | -3%         | 1,689        | 1,857        | 9.9%         |
| Other Income        | 6          | 5          | 6          | 7          | 18         | 225%        | 169%        | 47           | 23           | -50.5%       |
| COGS                | 238        | 177        | 320        | 490        | 500        | 110%        | 2%          | 1,187        | 1,224        | 3.2%         |
| Employee Exp.       | 26         | 24         | 36         | 38         | 41         | 54%         | 8%          | 100          | 124          | 23.6%        |
| Other Exp.          | 40         | 29         | 50         | 71         | 65         | 64%         | -8%         | 181          | 190          | 4.6%         |
| <b>Total Exp.</b>   | <b>305</b> | <b>229</b> | <b>406</b> | <b>598</b> | <b>606</b> | <b>99%</b>  | <b>1%</b>   | <b>1,468</b> | <b>1,538</b> | <b>4.7%</b>  |
| <b>EBITDA</b>       | <b>52</b>  | <b>40</b>  | <b>66</b>  | <b>161</b> | <b>129</b> | <b>149%</b> | <b>-20%</b> | <b>221</b>   | <b>319</b>   | <b>44.3%</b> |
| <b>EBITDA M (%)</b> | <b>15%</b> | <b>15%</b> | <b>14%</b> | <b>21%</b> | <b>18%</b> |             |             | <b>13%</b>   | <b>17%</b>   |              |
| Depreciation        | 18         | 18         | 20         | 22         | 19         | 10%         | -11%        | 53           | 77           | 44.8%        |
| EBIT                | 34         | 21         | 47         | 139        | 110        | 220%        | -21%        | 168          | 242          | 44.1%        |
| Intreset            | 8          | 8          | 7          | 9          | 11         | 33%         | 25%         | 20           | 31           | 51.3%        |
| Except.Item         | -          | -          | -          | -          | -          | NA          | NA          | -            | -            | NA           |
| PBT                 | 32         | 19         | 46         | 137        | 117        | 268%        | -15%        | 194          | 234          | 20.6%        |
| Tax                 | 2          | 2          | (47)       | 26         | 15         | 597%        | NA          | (16)         | (17)         | NA           |
| <b>PAT</b>          | <b>30</b>  | <b>17</b>  | <b>93</b>  | <b>112</b> | <b>103</b> | <b>244%</b> | <b>-8%</b>  | <b>210</b>   | <b>251</b>   | <b>19.5%</b> |
| <b>PAT %</b>        | <b>8%</b>  | <b>6%</b>  | <b>20%</b> | <b>15%</b> | <b>14%</b> |             |             | <b>12%</b>   | <b>13%</b>   |              |

**Better than expectation, Execution Momentum will remain strong**

Strong execution across the projects has led to robust revenue growth of 106% YoY to Rs.736 Cr which is above than our estimate of Rs.626 Cr. Most of the projects under construction have witnessed strong execution. Execution will likely to remain strong going ahead as the newly won EPC projects and HAM projects will come under execution from H2FY18. However, Management remains conservative and guided Rs.2700 Cr of top line in FY19. Management will review the situation once the appointment date of HAM projects received. During the quarter EBITDA margin has improved by 300 bps on account of early completion bonus. However, adj. EBITDA margin (14.6%) is in line with our expectation and we believe it will remain in this range only.

**Assets Monetization to fund equity requirement**

PNCINFRA has 7 HAM projects in his kitty and currently 4 HAM projects are under construction. Reaming 3 projects will come under execution from H2FY19. Gross Equity requirement on these projects is close to Rs.750 Cr over next 3 years. Management is planning to fund it through internal accruals and churning the invested equity in BOT assets. Currently management is in dialog with couple investors for its Aligarh Ghaziabad project. Management expects healthy cash flow from operation based on robust execution.

**Healthy order Inflow growth**

During the quarter PNCINFRA has bagged new orders worth Rs.3256 Cr comprising one EPC and one HAM projects and Rs.5776 Cr on YTD basis. Management does not expect aggressive tendering by NHAI in FY19. Despite it management expect to receive new orders worth Rs.2000-3000 Cr in balance period of FY19.

**Concall Highlights:-**

- ✓ Work on 3 HAM and 3 EPC projects will start from Q3FY19 onwards.
- ✓ Maintain revenue guidance at Rs.2700 Cr and will revise it once the received appointment date of HAM projects.
- ✓ Equity requirement of Rs.775 Cr will be funded through internal accruals. Management is also exploring assets monetization option.
- ✓ Capex requirement is Rs.225-250 Cr in FY19 and Rs.150 Cr in FY20.
- ✓ Management does not expect aggressive bidding by NHAI in FY19 and expect Rs.2000-3000 Cr of new projects in balance 9 months time period time.
- ✓ Company is in final stage to complete financial closure of Aligarh-Kanpur and Chakeri to Allahabad.
- ✓ Debt will be Rs.500-550 Cr by the year end
- ✓ Tax rate will be 18-21% in FY19.
- ✓ Management expects to increase man power by 500-600 in FY19.
- ✓ Cost of debt has increased due to increase in base Interest rate.

O/S order book of Key Projects

|                      | 1QFY17       | 2QFY17       | 3QFY17       | 4QFY17       | 1QFY18       | 2QFY18        | 3QFY18        | 4QFY18        | 1QFY19        |
|----------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Nagina-Kashipur      | 1,156        | 1,156        | 1,156        | 1,156        | 1,156        | 1,156         | 1,132         | 1,094         | 1,000         |
| Varanasi-Gorakhpur   | 869          | 869          | 869          | 869          | 810          | 785           | 745           | 654           | 574           |
| Dausa-Lalsot         | -            | -            | -            | 712          | 655          | 567           | 485           | 352           | 289           |
| Aligarh-Moradabad    | 645          | 645          | 645          | 567          | 531          | 468           | 374           | 271           | 148           |
| Bhojpur-Buxar        | 477          | 477          | 477          | 477          | 477          | 477           | 477           | 477           | 474           |
| Koilwar-Bhopur       | 453          | 453          | 453          | 453          | 453          | 454           | 438           | 425           | 398           |
| Chitradurga          | -            | -            | -            | -            | 1,207        | 1,207         | 1,207         | 1,157         | 1,073         |
| Jhansi pkg-I         | -            | -            | -            | -            | 1,213        | 1,213         | 1,213         | 1,162         | 1,090         |
| Jhansi- pkg-II       | -            | -            | -            | -            | 1,118        | 1,118         | 1,118         | 1,072         | 985           |
| Chakeri to Allahabad | -            | -            | -            | -            | -            | 2,159         | 2,159         | 2,159         | 2,159         |
| Aligarh-Kanpur       | -            | -            | -            | -            | -            | -             | -             | 1,197         | 1,197         |
| Lucknow - Ghazipur   | -            | -            | -            | -            | -            | -             | -             | -             | -             |
| Other Projects       | 1,954        | 1,738        | 1,269        | 1,145        | 983          | 928           | 787           | 654           | 586           |
| <b>Total</b>         | <b>5,554</b> | <b>5,338</b> | <b>4,869</b> | <b>5,379</b> | <b>8,603</b> | <b>10,532</b> | <b>10,135</b> | <b>10,674</b> | <b>13,229</b> |

Toll Collection

|                   | Q3FY17     | Q4FY17     | 1QFY18     | 2QFY18     | 3QFY18     | 4QFY18     | 1QFY19     | YoY %      | QoQ%      |
|-------------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------|
| Kanpur - Kabrai   | 11         | 23         | 19         | 17         | 21         | 30         | 29         | 52%        | -3%       |
| Gwalior - Bhind   | 9          | 16         | 15         | 12         | 17         | 17         | 12         | -25%       | -34%      |
| Kanpur - Lucknow  | 47         | 64         | 67         | 66         | 81         | 77         | 86         | 28%        | 11%       |
| Narela Industrial | 10         | 10         | 10         | 10         | 11         | 10         | 10         | 0%         | 3%        |
| Bareilly-Almora   | 10         | 10         | 11         | 10         | 11         | 11         | 11         | -5%        | -5%       |
| Ghaziabad Aligarh | 28         | 53         | 48         | 44         | 51         | 51         | 52         | 9%         | 3%        |
| <b>Total</b>      | <b>115</b> | <b>177</b> | <b>171</b> | <b>159</b> | <b>192</b> | <b>196</b> | <b>199</b> | <b>17%</b> | <b>2%</b> |

Exhibit: Order book and book to bill trend

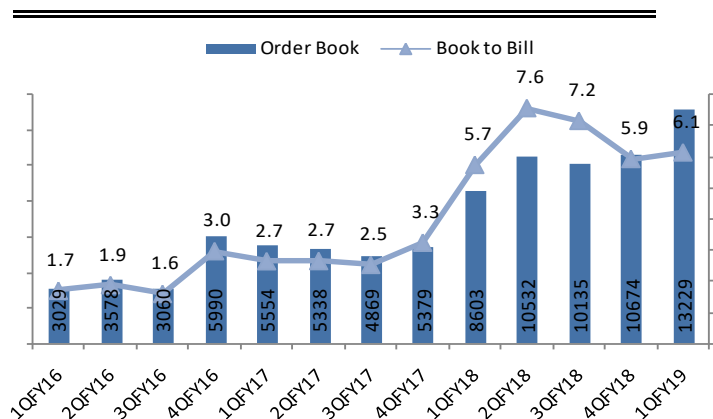
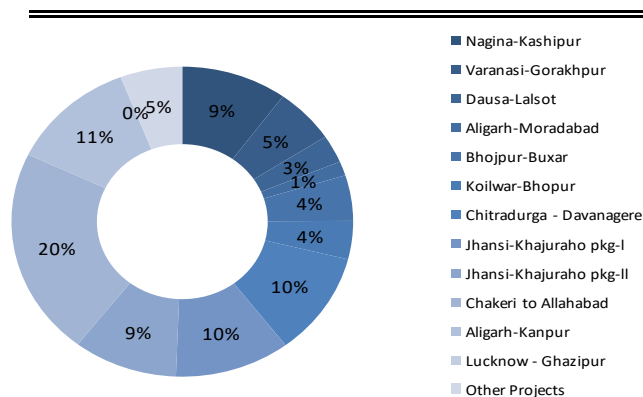


Exhibit: Order book break up



## Financials Details

### Income Statement

| Y/E March                    | FY13       | FY14       | FY15       | FY16       | FY17       | FY18       | FY19E      | FY20E      |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Revenue from Operation       | 1,304      | 1,146      | 1,561      | 2,014      | 1,689      | 1,857      | 3,059      | 4,750      |
| Change (%)                   | 2%         | -12%       | 36%        | 29%        | -16%       | 10%        | 65%        | 55%        |
| <b>EBITDA</b>                | <b>156</b> | <b>140</b> | <b>217</b> | <b>266</b> | <b>221</b> | <b>319</b> | <b>434</b> | <b>622</b> |
| Change (%)                   | 2%         | -10%       | 54%        | 23%        | -17%       | 44%        | 36%        | 43%        |
| Margin (%)                   | 12%        | 12%        | 14%        | 13%        | 13%        | 17%        | 14%        | 13%        |
| Depr & Amor.                 | 23         | 25         | 36         | 57         | 53         | 77         | 86         | 122        |
| <b>EBIT</b>                  | <b>133</b> | <b>115</b> | <b>180</b> | <b>209</b> | <b>168</b> | <b>242</b> | <b>348</b> | <b>501</b> |
| Int. & other fin. Cost       | 23         | 23         | 46         | 40         | 20         | 31         | 82         | 104        |
| Other Income                 | 4          | 11         | 14         | 25         | 47         | 23         | 72         | 72         |
| <b>EBT</b>                   | <b>114</b> | <b>103</b> | <b>148</b> | <b>194</b> | <b>194</b> | <b>234</b> | <b>337</b> | <b>468</b> |
| Exp Item                     | -          | -          | -          | -          | -          | -          | -          | -          |
| Tax                          | 37         | 36         | 47         | (40)       | (16)       | (17)       | 61         | 141        |
| Min. Int & P/L share of Ass. | -          | -          | -          | -          | -          | -          | -          | -          |
| <b>Reported PAT</b>          | <b>77</b>  | <b>67</b>  | <b>100</b> | <b>235</b> | <b>210</b> | <b>251</b> | <b>276</b> | <b>327</b> |
| <b>Adjusted PAT</b>          | <b>77</b>  | <b>67</b>  | <b>100</b> | <b>235</b> | <b>210</b> | <b>251</b> | <b>276</b> | <b>327</b> |
| Change (%)                   |            | -13%       | 50%        | 134%       | -11%       | 20%        | 10%        | 18%        |
| Margin(%)                    | 6%         | 6%         | 6%         | 12%        | 12%        | 13%        | 9%         | 7%         |

### Balance Sheet

| Y/E March                           | FY13         | FY14         | FY15         | FY16         | FY17         | FY18         | FY19E        | FY20E        |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Share Capital                       | 40           | 40           | 40           | 51           | 51           | 51           | 51           | 51           |
| Reserves                            | 526          | 589          | 696          | 1,327        | 1,521        | 1,755        | 2,006        | 2,303        |
| <b>Networth</b>                     | <b>566</b>   | <b>629</b>   | <b>736</b>   | <b>1,378</b> | <b>1,572</b> | <b>1,807</b> | <b>2,057</b> | <b>2,354</b> |
| Debt                                | 234          | 248          | 324          | 6            | 147          | 129          | 588          | 745          |
| Other Non Cur Liab                  | 99           | 180          | 250          | 160          | 167          | 170          | 170          | 170          |
| <i>Total Capital Employed</i>       | <i>799</i>   | <i>877</i>   | <i>1,060</i> | <i>1,385</i> | <i>1,720</i> | <i>1,935</i> | <i>2,646</i> | <i>3,099</i> |
| <i>Net Fixed Assets (incl CWIP)</i> | <i>126</i>   | <i>154</i>   | <i>217</i>   | <i>214</i>   | <i>356</i>   | <i>418</i>   | <i>567</i>   | <i>594</i>   |
| <i>Non Cur Investments</i>          | <i>271</i>   | <i>351</i>   | <i>430</i>   | <i>464</i>   | <i>468</i>   | <i>495</i>   | <i>754</i>   | <i>1,028</i> |
| <i>Other Non Cur Asst</i>           | <i>76</i>    | <i>98</i>    | <i>112</i>   | <i>243</i>   | <i>432</i>   | <i>468</i>   | <i>468</i>   | <i>468</i>   |
| Non Curr Assets                     | 473          | 604          | 759          | 921          | 1,255        | 1,381        | 1,789        | 2,090        |
| Inventory                           | 105          | 105          | 223          | 236          | 153          | 176          | 290          | 416          |
| Debtors                             | 398          | 344          | 367          | 376          | 631          | 690          | 1,006        | 1,432        |
| Cash & Bank                         | 38           | 100          | 21           | 97           | 35           | 147          | 292          | 314          |
| <b>Other Curr Assets</b>            | <b>102</b>   | <b>128</b>   | <b>124</b>   | <b>119</b>   | <b>124</b>   | <b>148</b>   | <b>214</b>   | <b>333</b>   |
| <i>Curr Assets</i>                  | <i>643</i>   | <i>676</i>   | <i>826</i>   | <i>969</i>   | <i>1,139</i> | <i>1,406</i> | <i>2,046</i> | <i>2,827</i> |
| Creditors                           | 144          | 70           | 101          | 94           | 237          | 463          | 461          | 781          |
| Provisions                          | 4            | 5            | 18           | 20           | 21           | 13           | 21           | 33           |
| Other Curr Liab                     | 69           | 148          | 157          | 231          | 249          | 206          | 537          | 835          |
| Curr Liabilities                    | 218          | 222          | 275          | 345          | 507          | 681          | 1,020        | 1,648        |
| <b>Net Curr Assets</b>              | <b>425</b>   | <b>454</b>   | <b>551</b>   | <b>623</b>   | <b>632</b>   | <b>724</b>   | <b>1,027</b> | <b>1,179</b> |
| <b>Total Assets</b>                 | <b>1,117</b> | <b>1,280</b> | <b>1,585</b> | <b>1,890</b> | <b>2,394</b> | <b>2,786</b> | <b>3,835</b> | <b>4,917</b> |

## Financials Details

### Cash Flow

| Y/E March                    | FY13  | FY14  | FY15  | FY16  | FY17  | FY18  | FY19E | FY20E |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| PBT                          | 114   | 103   | 148   | 194   | 194   | 234   | 337   | 468   |
| (inc)/Dec in Working Capital | 59    | 74    | (109) | (220) | (260) | 20    | (158) | (130) |
| Non Cash Op Exp              | 23    | 33    | 37    | 57    | 53    | 77    | 86    | 122   |
| Int Paid (+)                 | 23    | 23    | 46    | 33    | 15    | 31    | 82    | 104   |
| Tax Paid                     | 39    | 33    | 50    | (39)  | (16)  | (17)  | 61    | 141   |
| others                       | (1)   | (5)   | (8)   | (12)  | (29)  | -     | -     | -     |
| CF from Op. Activities       | 179   | 195   | 63    | 91    | (9)   | 379   | 287   | 423   |
| (inc)/Dec in FA & CWIP       | (40)  | (57)  | (102) | (55)  | (192) | (138) | (235) | (149) |
| Free Cashflow                | 139   | 138   | (39)  | 36    | (201) | 241   | 52    | 274   |
| (Pur)/Sale of Inv            | (104) | (80)  | (73)  | (65)  | (3)   | (27)  | (259) | (274) |
| others                       | 7     | 3     | 9     | 48    | 33    | -     | -     | -     |
| CF from Inv. Activities      | (137) | (133) | (165) | (79)  | (171) | (165) | (494) | (423) |
| inc/(dec) in NW              | -     | -     | -     | 417   | -     | -     | -     | -     |
| inc/(dec) in Debt            | (17)  | 21    | 78    | (318) | 141   | (19)  | 460   | 156   |
| Int. Paid                    | 23    | 23    | 46    | -     | -     | 31    | 82    | 104   |
| Div Paid (inc tax)           | 3     | 3     | 9     | 9     | 16    | 23    | 25    | 30    |
| others                       | 2     | 6     | -     | (33)  | (15)  | -     | -     | -     |
| CF from Fin. Activities      | (42)  | 0     | 23    | 57    | 110   | (73)  | 352   | 22    |
| Inc/Dec) in Cash             | 0     | 62    | (79)  | 68    | (70)  | 141   | 145   | 22    |
| Add: Opening Balance         | 38    | 38    | 100   | 6     | 74    | 35    | 147   | 292   |
| Closing Balance              | 38    | 100   | 21    | 74    | 4     | 176   | 292   | 314   |

\* FY18 numbers are estimated

### Key Ratio

| Y/E March          | FY13 | FY14 | FY15 | FY16 | FY17  | FY18 | FY19E | FY20E |
|--------------------|------|------|------|------|-------|------|-------|-------|
| ROE                | 14%  | 11%  | 14%  | 17%  | 13%   | 14%  | 13%   | 14%   |
| ROCE               | 23%  | 18%  | 24%  | 15%  | 10%   | 12%  | 14%   | 17%   |
| Asset Turnover     | 1.17 | 0.90 | 0.98 | 1.07 | 0.71  | 0.67 | 0.80  | 0.97  |
| Debtor Days        | 111  | 109  | 86   | 68   | 136   | 136  | 120   | 110   |
| Inv Days           | 29   | 33   | 52   | 43   | 33    | 35   | 35    | 32    |
| Payable Days       | 40   | 22   | 24   | 17   | 51    | 91   | 55    | 60    |
| Int Coverage       | 5.67 | 4.93 | 3.90 | 5.23 | 8.26  | 7.87 | 4.23  | 4.80  |
| P/E                | NA   | -    | -    | 9    | 11    | 16   | 15    | 13    |
| Price / Book Value | NA   | -    | -    | 1    | 2     | 2    | 2     | 2     |
| EV/EBITDA          | (0)  | (1)  | 0    | 7    | 11    | 13   | 10    | 7     |
| FCF per Share      | 7    | 35   | (10) | 7    | (8)   | 9    | 2     | 11    |
| Div Yield          | NA   | NA   | NA   | 0    | -0.7% | 0.5% | 0.5%  | 0.6%  |

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