

Retail Equity Research (South India Focus)  
**PNC Infratech Ltd**  
Construction & Engineering

**BUY**

BSE CODE : 539150 NSE CODE: PNCINFRA  
BLOOMBERG CODE: PNCL:IN SENSEX : 35,844

12M Investment Period Rating as per Small Cap  
CMP Rs.149 TARGET Rs.182 RETURN 22% ↑  
(Closing: 02-07-20)

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↑

**EARNINGS** ↓

**Steady performance despite lockdown...**

PNC Infratech Ltd (PNC) is an Infrastructure construction, development and management company; expertise in execution of projects including highways, bridges, flyovers, airport runways, industrial areas and transmission lines.

- Revenue grew by 8% YoY despite 10 days of execution impact due to lockdown in Q4FY20.
- EBITDA margins declined by 55bps to 13.5% due to higher raw material and employee cost.
- Order book stood healthy at Rs15,629cr (incl. L1 ~Rs7,000cr) which is 3.2x FY20 revenue, provides revenue visibility.
- Adj. PAT growth was moderate at 3% YoY to Rs76cr due to increase in depreciation and interest costs.
- Due to near term hindrance on execution we reduce revenue estimate for FY21E/FY22E by 24%/14% respectively.
- We expect a rebound in earnings from H2FY21 supported by healthy order book. We value standalone EPC business at a P/E of 9x on FY22E EPS and BOT/HAM projects at 0.5xP/B and revise our rating to Buy.

**Execution to pick up from H2FY21...**

Q4FY20 revenue grew by 7.6% YoY to Rs1,158cr despite 10 days of revenue loss on account of national lockdown. While FY20 top-line grew by 58% YoY to Rs4,878cr supported by strong execution in HAM projects. PNC's top six projects contributes 65% to the top-line. Post lockdown PNC's construction activity resumed across ~75% of the projects with 70% to 80% labour. However, management expects uncertainties of labour availability to persist till monsoon ends. We expect execution will pick up from H2FY21 as most of the HAM projects are under execution stage with average ~90% acquired land available. PNC has already infused equity of Rs443cr for HAM projects and the balance of Rs404 will be invested over the next two to three years. The deal with Cube Highways to monetise Ghaziabad-Aligarh project has been called off and PNC is in negotiation stage with new buyer, expects to complete the deal in five to six months.

**Healthy order book...**

Q4FY20 order book stood at Rs15,625 (incl. L1 EPC value of HAM projects of ~Rs7,000cr) which is 3.2x FY20 revenue and provides strong revenue visibility in the coming years. The outlook remains positive as most of all projects are in execution stage except Challakere-Hariyur project & Lucknow ring road (EPC project). The ordering activity to pick up from July to September (~60 projects out for bidding from NHAI) and company expects an order inflow of Rs7,000cr in FY21.

**Moderate growth in earnings...**

EBITDA margins declined by 55bps YoY at 13.5% due to increase in raw material cost (12%) and employee cost (15% YoY), which partially offset by 14% YoY fall in other expenses. Further higher depreciation (15% YoY) & interest cost (63% YoY) impacted earnings growth which grew by 3% YoY to Rs76cr. Interest cost was increased to Rs32cr mainly on account of interest cost on mobilization advances of Rs14cr.

**Valuations**

Strong order book of PNC is providing revenue visibility for coming years. We expect execution to pick up from H2FY21 as most of the HAM projects are under execution stage. We value EPC business at a P/E of 9x on FY22E EPS & BOT/HAM projects at 0.5x P/B and revise our rating to Buy.

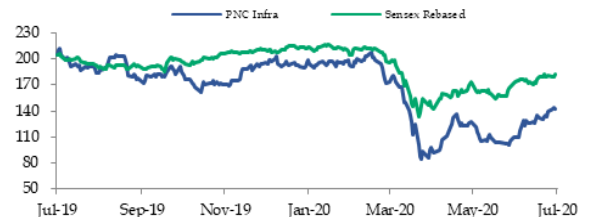
**Company Data**

Market Cap (cr)	Rs. 3,676
Enterprise Value (cr)	Rs. 3,218
Outstanding Shares (cr)	25.7
Free Float	43.93%
Dividend Yield	0.24%
52 week high	Rs. 219
52 week low	Rs. 81
6m average volume (cr)	0.01
Beta	0.67
Face value	Rs. 2

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	56.07	56.07	56.07
FII's	6.21	6.45	6.37
MFs/Insti	23.11	23.07	23.81
Public	14.61	14.41	13.75
Total	100.0	100.0	100.0
Promoter Pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	55%	-28%	-30%
Absolute Sensex	28%	-15%	-11%
Relative Return*	27%	-13%	-19%

\*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	4,878	4,535	5,707
Growth (%)	57.5	-7.0	25.8
EBITDA	764	621	799
EBITDA Margin(%)	15.7	13.7	14.0
PAT Adj.	460	321	468
Growth (%)	77.7	-30.3	46.0
Adj.EPS	17.9	12.5	18.3
Growth (%)	77.7	-30.3	46.0
P/E	8.0	11.5	7.8
P/B	1.4	1.3	1.1
EV/EBITDA	4.2	5.0	3.9
ROE (%)	19.8	11.9	15.3
D/E	0.09	0.11	0.11

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Research Analyst

## SOTP Valuation

Particulars	Value (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC		164	PE 9x FY22E EPS
Road BOTs	463	9	0.5x P/BV
HAM	427	8	0.5x P/BV
<b>Total Value per share</b>		<b>182</b>	

## Quarterly Financials (Standalone)

### Profit & Loss

Rs (cr)	Q4FY20	Q4FY19	YoY Growth %	FY20	FY19	YoY Growth %
<b>Sales</b>	1,158	1,076	7.6	4,878	3,097	57.5
<b>EBITDA</b>	156	151	3.4	764	457	67.1
EBITDA margins %	13.5	14.1	-55bps	15.7	14.8	90bps
Depreciation	32	28	14.7	126	92	37.0
<b>EBIT</b>	140	135	3.5	638	365	75
Interest	32	19	63.1	114	64	78.5
Other Income	16	12	30.1	88	43	105.6
Exceptional Items						
<b>PBT</b>	108	116	-6.5	612	344	77.9
Tax	32	-24	-233.5	152	19	692.7
Share of profit from Associate						
<b>Minority Interest</b>						
<b>Reported PAT</b>	76	140	-45.6	460	325	41.7
Adjustments	-	66			66	
<b>Adj PAT</b>	76	74	2.6	460	259	77.7
No. of Shares	25.7	25.7		25.7	25.7	
<b>EPS (Rs)</b>	3.0	2.9	2.6	17.9	10.1	77.7

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	5,930	6,632	4,535	5,707	-23.5	-13.9
EBITDA	842	928	621	799	-26.2	-13.9
Margins (%)	14.2	14.0	13.7	14.0	-50bps	0bps
Adj. PAT	472	515	321	468	-32.0	-9.0
EPS	18.4	20.1	12.5	18.3	-32.0	-9.0

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales</b>	1,857	3,097	4,878	4,535	5,707
% change	10	67	58	(7)	26
<b>EBITDA</b>	319	457	764	621	799
% change	44	43	67	(19)	29
Depreciation	77	92	126	130	142
EBIT	242	365	638	491	657
Interest	31	64	114	112	128
Other Income	23	43	88	90	100
<b>PBT</b>	234	344	612	469	629
% change	21	47	78	(23)	34
Tax	(17)	19	152	148	160
Tax Rate (%)	(7.3)	6	25	32	26
<b>Reported PAT</b>	251	325	460	321	468
Adj.*	(50)	(66)	0	0	0
<b>Adj. PAT</b>	201	259	460	321	468
% change	26.8	28.8	77.7	(30.3)	46.0
No. of shares (cr)	25.7	25.7	25.7	25.7	25.7
<b>Adj EPS (Rs)</b>	7.8	10.1	17.9	12.5	18.3
% change	26.8	28.8	77.7	(30.3)	46.0
DPS (Rs)	0.6	0.6	0.9	0.9	0.9

### BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	147	309	682	890	924
Accounts Receivable	690	615	804	932	1,173
Inventories	176	404	267	434	485
Other Cur. Assets	691	991	1,275	1,118	1,438
Investments	662	774	673	774	890
Gross Fixed Assets	627	917	1,037	1,137	1,237
Net Fixed Assets	405	614	587	435	392
CWIP	11	6	0	5	5
Intangible Assets	2	2	2	2	2
Def. Tax (Net)	2	1	121	1	-2
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>2,786</b>	<b>3,716</b>	<b>4,410</b>	<b>4,591</b>	<b>5,308</b>
Current Liabilities	528	647	748	824	1,014
Provisions	18	12	11	22	28
Debt Funds	129	284	224	299	374
Other Liabilities	306	658	881	600	600
Equity Capital	51	51	51	51	51
Reserves & Surplus	1,755	2,064	2,495	2,794	3,241
Shareholder's Fund	1,807	2,115	2,547	2,845	3,292
<b>Total Liabilities</b>	<b>2,786</b>	<b>3,716</b>	<b>4,410</b>	<b>4,591</b>	<b>5,308</b>
BVPS	70	82	99	111	128

### CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	311	436	738	599	771
Non(cash adj.	48	46	(158)	86	(29)
Changes in W.C	(51)	(340)	(235)	(51)	(417)
<b>C.F. Operation</b>	331	186	433	724	425
Capital exp.	(97)	(295)	(126)	(95)	(100)
Change in inv.	(26)	(111)	101	(101)	(116)
Other invest.CF	0	0	0	0	0
<b>C.F - Investment</b>	(146)	(449)	(114)	(286)	(316)
Issue of equity	0	0	0	0	0
Issue/repay debt	(19)	155	(60)	75	75
Dividends paid	(15)	(15)	(22)	(22)	(22)
Other finance.CF	135	352	223	(281)	0
<b>C.F - Finance</b>	71	425	53	(230)	(75)
Chg. in cash	256	162	373	208	34
Closing cash	147	309	682	890	924

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	17.2	14.8	15.7	13.7	14.0
EBIT margin (%)	13.0	11.8	13.1	10.8	11.5
Net profit mgn.(%)	10.8	8.4	9.4	7.1	8.2
ROE (%)	11.9	13.2	19.8	11.9	15.3
ROCE (%)	10.9	11.3	16.4	10.0	13.0
<b>W.C &amp; Liquidity</b>					
Receivables (days)	129.8	76.9	53.1	69.8	67.3
Inventory (days)	49.1	50.0	36.3	40.4	42.6
Payables (days)	104.3	80.9	51.0	62.0	64.8
Current ratio (x)	3.1	3.5	4.0	4.0	3.9
Quick ratio (x)	1.6	1.4	2.0	2.2	2.1
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.2	4.0	5.0	4.2	4.8
Total asset T.O (x)	0.7	1.0	1.2	1.0	1.2
Int. covge. ratio (x)	7.9	5.7	5.6	4.4	5.1
Adj. debt/equity (x)	0.07	0.13	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	2.0	1.2	0.7	0.7	0.5
EV/EBITDA (x)	11.5	8.0	4.2	5.0	3.9
P/E (x)	18.3	14.2	8.0	11.5	7.8
P/BV (x)	2.0	1.7	1.4	1.3	1.1

## Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
29th September 2016	*BUY	142
15th December 2016	BUY	127
22nd February 2017	BUY	121
31st May 2017	BUY	166
23rd August 2017	HOLD	147
12th December 2017	BUY	214
26th February 2018	BUY	193
7th June 2018	BUY	197
13th August 2018	BUY	190
19th December 2018	BUY	157
25th February 2019	BUY	158
29th May 2019	BUY	223
25th November 2019	BUY	223
17th February 2020	Accumulate	233
02nd July 2020	BUY	182

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
<b>Buy</b>	<b>Upside is above 10%</b>	<b>Upside is above 15%</b>	<b>Upside is above 20%</b>
<b>Accumulate</b>	-	<b>Upside is between 10%-15%</b>	<b>Upside is between 10%-20%</b>
<b>Hold</b>	<b>Upside is between 0% - 10%</b>	<b>Upside is between 0%-10%</b>	<b>Upside is between 0%-10%</b>
<b>Reduce/sell</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>
<b>Not rated</b>			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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