

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

BSE CODE : 539150 NSE CODE: PNCINFRA
BLOOMBERG CODE: PNCL:IN SENSEX : 35,871

BUY

12M Investment Period Rating as per Mid Cap
CMP Rs131 TARGET Rs158 RETURN 21% ↑
(Closing: 22-02-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Construction of robust order book in progress ...

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.

- Strong execution of big ticket order book supported a revenue growth of 54% YoY in Q3FY19.
- While EBITDA margin flat at 14%, better than our estimate of 13.5% .
- Order book remains robust at Rs12,478cr which is 4.5x TTM revenue, provides improved visibility.
- We expect revenue to grow at a CAGR of 30% over FY18-21E as PNC achieved financial closure for 7 HAM projects and execution of four project is progressing well.
- We roll over our estimate to FY21 and value standalone EPC business at a P/E of 11x FY21E EPS and BOT/HAM projects at 0.7xP/B and reiterate BUY rating.

Execution to improve...

Robust revenue growth of 54% YoY to Rs727cr in Q3FY19 led by strong execution of big ticket orders. While 9MFY19 revenue growth remain strong at 86% YoY to Rs2,021cr. PNC has received financial closure for all seven projects and four of these projects achieved appointed date & execution is currently in progress. HAM projects under execution are Dausa-Lalsot, Chitradurga-Davanagere, Jhansi- Khajuraho and Jhansi-Khajuraho which comprising 38% of total order book. The total equity requirement for all HAM projects is Rs832cr of which PNC has already infused Rs229cr and balance will invest over the next two to three years. Execution is likely to be smoothen going forward as major project's construction has started with an average of 85% land availability. Additionally, Nagpur- Mumbai expressway EPC project (Rs2,000cr) received the appointed date and projects is currently under construction.

Healthy order book...

Order book remains robust at Rs12,478cr which is 4.5x TTM revenue which provides improved visibility in the coming years. Currently, PNC has seven HAM projects of which four projects are under execution. Additionally, the company has bid for four air ports projects on O&M basis viz. Ahmedabad, Mangalore, Trivandrum and Jaipur, where outcome is expected to come before March, 2019. Going forward company will take a conservative approach on bidding and looking only for EPC projects given the challenges in getting financial closure and liquidity crunch.

Better margins...

EBITDA margin remain flat at 14% YoY, better than our estimate while margins as on 9MFY19 improved by 76bps YoY to 15.1% led by better execution and bonus received on account of early completion of projects. Q3FY19 Adj. PAT grew by 10% YoY to Rs 47cr. The benefit of higher execution and operational efficiency will stimulate earnings to grow at a CAGR of 27% over FY18-21E.

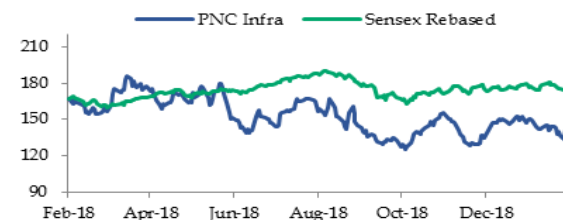
Valuations

Pick up in execution with a strong balance sheet and likely monetisation of four BOT projects will support valuation. However, risk on slowdown in execution in H1FY20 on account of general election is likely to impact stock price. We roll over our valuation to FY21 estimate and value EPC business at a P/E of 11x on FY21E EPS & BOT/HAM projects at 0.7x P/B and reiterate BUY rating .

Company Data			
Market Cap (cr)	Rs. 3,359		
Enterprise Value (cr)	Rs. 3,638		
Outstanding Shares (cr)	25.7		
Free Float	43.93%		
Dividend Yield	0.4%		
52 week high	Rs. 200		
52 week low	Rs. 123		
6m average volume (cr)	0.01		
Beta	0.67		
Face value	Rs. 2		
Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	56.07	56.07	56.07
FII's	6.16	6.05	6.32
MFs/Insti	21.84	22.1	22.61
Public	15.93	15.78	15.00
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-13%	-16%	-20%
Absolute Sensex	1%	-7%	6%
Relative Return*	-14%	-9%	-27%

over or under performance to benchmark index



Standalone (cr)	FY19E	FY20E	FY21E
Sales	2,856	3,682	4,103
Growth (%)	54	29	11
EBITDA	428	515	574
EBITDA Margin(%)	15.0	14.0	14.0
PAT Adj.	231	273	324
Growth (%)	15	19	19
Adj.EPS	9.0	10.7	12.6
Growth (%)	15	19	19
P/E	14.6	12.3	10.4
P/B	1.7	1.5	1.3
EV/EBITDA	8.5	7.2	6.6
ROE (%)	12.0	12.7	13.4
D/E	0.1	0.2	0.2

Antu Eapen Thomas
Research Analyst

Particulars	Value (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC	3,568	139	PE 11x FY21E EPS
Road BOTs	463	13	0.7x P/BV
HAM	229	6	0.7x P/BV
Total Value per share		158	

Quarterly Financials (Standalone)

Profit & Loss

Rs (cr)	Q3FY18	Q3FY19	YoY Growth %	9MFY18	9MFY19	YoY Growth %
Sales	472	727	53.9	1,098	2,021	84.1
EBITDA	66	102	54.1	158	306	93.9
EBITDA margins	14.0	14.0	0bps	14.4	15.1	76bps
Depreciation	20	24	23.5	56	64	15.3
EBIT	47	78	67.0	102	242	136.5
Interest	7	19	187.9	22	45	101.5
Other Income	6	7	20.3	16	31	88.0
Exceptional Items	-	-	-			
PBT	46	66	44.1	97	228	136.3
Tax	(47)	19		(43)	43	
Share of profit from Associate						
Minority Interest						
Reported PAT	93	47	(49.1)	140	185	32.6
Adjustments	50			50		
Adj PAT	43	47	9.6	90	185	106.3
No. of Shares	25.7	25.7		25.7	25.7	
EPS (Rs)	1.3	1.8	9.6	3.5	7.2	106.3

Change in Estimates

	Old estimates		New estimates			Change %	
Year / Rs cr	FY19E	FY20E	FY19E	FY20E	FY21E	FY19E	FY20E
Revenue	2,658	3,604	2,858	3,682	4,103	7.5%	2.2%
EBITDA	359	490	428	515	574	19.4%	5.2%
Margins (%)	13.5	13.6	15.0	14.0	14.0%	149bps	40bps
Adj. PAT	229	290	231	273	324	0.7%	-5.7%
EPS	8.9	11.3	9.0	10.7	12.6	0.7%	-5.7%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Sales	1,689	1,857	2,856	3,682	4,103
% change	(16)	10	54	29	11
EBITDA	221	319	428	515	574
% change	(17)	44	34	20	11
Depreciation	53	77	81	89	105
EBIT	168	242	347	426	469
Interest	20	31	92	94	73
Other Income	47	23	38	40	45
PBT	194	234	294	372	441
% change	(3)	21	26	27	19
Tax	(16)	(17)	63	99	117
Tax Rate (%)	0	0	0	0	0
Reported PAT	210	251	231	273	324
Adj.*	(51)	(50)	0	0	0
Adj. PAT	159	201	231	273	324
% change	(2)	27	15	19	19
No. of shares (cr)	26	26	26	26	26
Adj EPS (Rs)	6.2	7.8	9.0	10.7	12.6
% change	(2)	27	15	19	19
DPS (Rs)	0.1	0.1	0.1	0.1	0.1

BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	35	147	210	173	299
Accounts Receivable	631	690	939	1,160	1,236
Inventories	153	176	257	306	344
Other Cur. Assets	580	691	806	938	1,045
Investments	636	662	782	899	1,034
Gross Fixed Assets	527	627	727	827	927
Net Fixed Assets	346	405	293	303	298
CWIP	8	11	5	5	5
Intangible Assets	2	2	2	2	2
Def. Tax (Net)	2	2	4	6	9
Other Assets	0	0	0	0	0
Total Assets	2,394	2,786	3,299	3,793	4,272
Current Liabilities	379	528	670	835	937
Provisions	24	18	27	35	39
Debt Funds	147	129	279	349	419
Other Liabilities	271	306	300	300	300
Equity Capital	51	51	51	51	51
Reserves & Surplus	1,521	1,755	1,971	2,223	2,525
Shareholder's Fund	1,572	1,807	2,023	2,274	2,576
Total Liabilities	2,394	2,786	3,299	3,793	4,272
BVPS	61	70	79	89	100

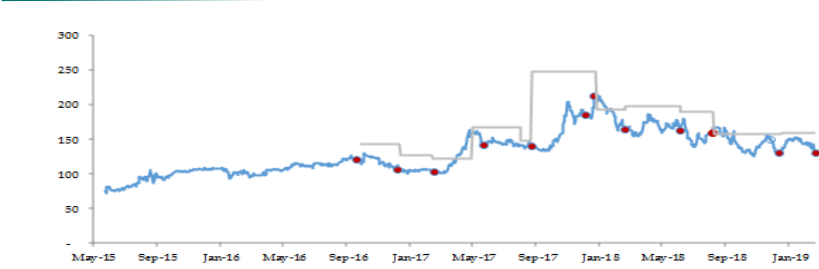
CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	247	311	375	461	546
Non-cash adj.	37	48	26	(6)	(46)
Changes in W.C	(220)	(51)	(293)	(229)	(115)
C.F. Operation	111	331	145	266	430
Capital exp.	(92)	(97)	(106)	(100)	(100)
Change in inv.	(172)	(26)	(119)	(117)	(135)
Other invest.CF	6	0	0	0	0
C.F - Investment	(305)	(146)	(263)	(257)	(280)
Issue of equity	0	0	0	0	0
Issue/repay debt	141	(19)	150	70	70
Dividends paid	(15)	(15)	(15)	(22)	(22)
Other finance.CF	56	135	(6)	0	0
C.F - Finance	162	71	181	(46)	(25)
Chg. in cash	(32)	256	63	(37)	126
Closing cash	65	147	210	173	299

RATIOS

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	13.1	17.2	15.0	14.0	14.0
EBIT margin (%)	9.9	13.0	12.2	11.6	11.4
Net profit mgn.(%)	9.4	10.8	8.1	7.4	7.9
ROE (%)	10.8	11.9	12.0	12.7	13.4
ROCE (%)	9.5	10.9	12.0	11.0	10.5
W.C & Liquidity					
Receivables (days)	108.8	129.8	104.1	104.1	106.6
Inventory (days)	60.0	49.1	40.4	40.5	41.6
Payables (days)	52.8	104.3	95.0	87.8	93.9
Current ratio (x)	3.5	3.1	3.2	3.0	3.0
Quick ratio (x)	1.8	1.6	1.7	1.6	1.6
Turnover &Leverage					
Gross asset T.O (x)	3.5	3.2	4.2	4.7	4.7
Total asset T.O (x)	0.8	0.7	0.9	1.0	1.0
Int. covge. ratio (x)	8.3	7.9	3.8	4.5	6.4
Adj. debt/equity (x)	0.09	0.07	0.14	0.2	0.2
Valuation					
EV/Sales (x)	2.1	1.9	1.3	1.0	0.9
EV/EBITDA (x)	15.9	10.9	8.5	7.2	6.6
P/E (x)	21.2	16.7	14.6	12.3	10.4
P/BV (x)	2.1	1.9	1.7	1.5	1.3

PRICE HISTORY



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

Investment Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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