

## INFRASTRUCTURE

25 September 2019

### Corporate tax cut an earnings booster; HG Infra to gain the most

The corporate tax reduction announced last week will bump up standalone EPS by 2-13% for our infrastructure universe over FY20-FY22, with HGIEL benefiting the most. EPS accretion could be lower should developers choose to cede some of the advantage towards more competitive project bids. The tax cut proves timely for the sector as most companies were heading for a full tax regime by FY21, upon expiry of 80IA exemptions. Also, attendant benefits of enhanced cash flows and lower working capital should pump up IRRs of operational assets by 50-100bps.

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**EPS boost of 2-14% from tax cut:** Within our coverage universe, HG Infra (HGIEL) falls under the full tax bracket (35% incl. cess) and hence is expected to see the biggest 13% earnings upside. However, we cut our TP on the stock to Rs 395 vs. Rs 405 on sector headwinds and rollover. For the rest of our coverage, a winding down of orders carrying 80IA benefits would have put most players under the full/higher tax regime by FY21 (barring KNR Constructions which has a Rs 7bn backlog qualifying for 80IA). Now, they will shift instead to the new tax rate of 25.2%, resulting in better cash flows and controlled leverage.

We estimate a 2-13% boost to standalone earnings for our coverage companies over FY20-FY22 and a 50-100bps rise in IRR for their operational assets (BOT) housed in SPVs, thus raising the latter's appeal for financial investors.

**Competitive bidding could erode EPS benefit:** While existing contracts are unlikely to be renegotiated, the tax cut advantage could be ceded by contractors/developers in order to make bids for future projects more competitive. While we await management commentary on this front, we believe delayed order placement by NHAI will keep competition stiff, resulting in aggressive bidding and some erosion of the anticipated EPS upside.

**Targets revised; PNCL remains top pick:** Order awarding for NHAI's Rs 600bn bid pipeline could pick up from Oct-Nov'19, per our company checks. Led by near-term headwinds of delayed ordering and tardy award of appointed dates, we cut the one-year forward P/E multiple across our coverage by 1-2x. Baking in the tax cut and rolling over to Sep'21 valuations, we have new targets for Dilip Buildcon (Rs 610 vs. Rs 600), HGIEL (Rs 395 vs. Rs 405), KNRC (Rs 360 vs. Rs 350) and Sadbhav Engg (Rs 175 vs. Rs 180). Our long-term positive stance on the sector holds; reiterate PNC Infra, KNRC, HGIEL, Ashoka Buildcon as top picks.

### KEY RECOMMENDATIONS

Ticker	Price*	Target	Rating
ASBL IN	110	185	BUY
DBL IN	438	610	BUY
HGINFRA IN	197	395	BUY
KNRC IN	231	360	BUY
PNCL IN	190	250	BUY
SADE IN	139	175	BUY

Price & Target in Rupees | \*CMP as on 24-Sep.  
HGINFRA = HGIEL

### ORDER BACKLOG as of Jun'19

Ticker	OB (Rs bn)	Book-to-bill (x)	Executable (%)
ASBL IN	90.4	2.4	75.3
DBL IN	190.3	2.1	75.5
HGINFRA IN	57.1	2.7	56.6
KNRC IN	65.2	3.2	71.1
PNCL IN	118.9	3.2	92.1
SADE IN	108.1	3.1	74.2

Source: Company, BOBCAPS Research



FIG 1 – EPS BENEFIT FROM TAX RATE CUT (STANDALONE)

Company (Rs mn)	FY19	FY20E				FY21E				FY22E				Comments
	Effective tax rate (%)	Old rate (%)	New rate* (%)	Revised EPS (Rs)	% EPS upgrade	Old rate (%)	New rate* (%)	Revised EPS (Rs)	% EPS upgrade	Old rate (%)	New rate* (%)	Revised EPS (Rs)	% EPS upgrade	
ASBL	28.2	33.0	25.2	11.5	9.2	33.0	25.2	13.0	8.9	33.0	25.2	13.72	7.4	<ul style="list-style-type: none"> <li>ASBL will pay full tax as per the new income tax rate</li> <li>Of 6 NHAI HAM projects, 5 have achieved FC and 3 are awarded AD. Management expects AD for Tumkur-Shivamoga (Pkg I &amp; II) by Oct'19 as 3H-stage land acquisition stands at ~70%. For Tumkur-Shivamoga (Pkg IV), CA is expected to be signed by Dec'19 as only 50% land in 3H stage is acquired so far</li> <li>NHAI is now signing CA only after 80% physical land acquisition, per management</li> <li>Tax rate cut will boost IRR of operational assets by 50-100bps</li> </ul>
DBL	5.0	30.0	25.2	42.1	7.6	33.0	25.2	52.4	8.5	33.0	25.2	63.8	5.8	<ul style="list-style-type: none"> <li>After taking MAT credit into consideration, DBL's management expects ETR of ~22%/23%/23% for FY20/FY21/FY22 post rate cut</li> <li>AD for NHAI HAM project of Bellary-Byrapura expected by end-Sep'19 and Nidgatta-Myosre in Oct</li> <li>FY20 revenue guidance stands at over Rs 100bn</li> </ul>
HGIEL	29.0	35.0	25.1	28.0	12.8	35.0	25.2	34.2	11.2	35.0	25.2	41.2	11.5	<ul style="list-style-type: none"> <li>HGIEL to benefit the most being under full tax regime</li> <li>Execution on Delhi-Vadodara Pkg 4 (EPC cost of ~Rs 10bn) to start from mid-Oct'19</li> <li>For HAM projects of Rewari-Ateli Mandi and Narnaul Bypass-Ateli Mendi, land acquisition in 3H stage stands at ~75%. SPVs have received in-principle sanctions from banks, and the company will submit documents to NHAI for FC within a week (award of FC likely in a month after submission). AD for Rewari-Ateli Mandi expected by end-Oct'19 and for Narnaul Bypass-Ateli Mendi by mid-Nov'19</li> <li>According to management, awarding should pick up from Nov'19 and peak during Jan-Feb'20</li> </ul>

Company (Rs mn)	FY19	FY20E				FY21E				FY22E				Comments
	Effective tax rate (%)	Old rate (%)	New rate* (%)	Revised EPS (Rs)	% EPS upgrade	Old rate (%)	New rate* (%)	Revised EPS (Rs)	% EPS upgrade	Old rate (%)	New rate* (%)	Revised EPS (Rs)	% EPS upgrade	
KNRC	10.0	20.0	18.0	14.6	2.6	28.5	25.2	20.3	1.9	33.5	25.2	20.2	10.5	<ul style="list-style-type: none"> <li>With outstanding order backlog of ~Rs 7bn carrying the 80IA benefit, KNRC's ETR would remain low at ~18% in FY20 post rate cut</li> <li>According to management, there could be some spillover of the order backlog with 80IA benefits in FY21, which can either result in lower ETR, i.e. below 25%, or a normalised tax rate</li> <li>Recent termination of NHAI HAM project Meensurutti - Chidambaram (EPC cost of Rs 3.5bn) will not have any impact on our earnings estimates. Equity invested in this project so far stands at Rs 83.5mn which is likely to be written off</li> </ul>
PNCL	24.0	30.0	25.4	14.4	6.0	32.0	25.2	18.2	7.7	32.0	25.2	19.3	5.2	<ul style="list-style-type: none"> <li>PNCL will pay full tax as per the new income tax rate</li> <li>As per management, clarity on utilisation of accumulated MAT credit is awaited and hence, its impact is not ascertainable</li> <li>Outstanding MAT credit in the standalone balance sheet was Rs 1.7bn as on Jun'19</li> <li>Tax rate cut will boost IRRs of operational assets by 50-100bps</li> </ul>
SADE	27.7	28.0	25.3	9.5	4.0	32.0	25.2	12.5	10.7	32.0	25.2	15.2	10.9	<ul style="list-style-type: none"> <li>SADE will pay full tax as per the new income tax rate</li> <li>Management expects a valuation report for the proposed merger of SADE and Sadbhav Infrastructure (SIPL) in a months' time</li> <li>Stake sale of 9 operational BOT assets of SIPL to IndInfra Trust is expected to conclude mid-Nov'19</li> </ul>

Source: Company, BOBCAPS Research | \*Not adjusted for MAT credit | Note: AD – Appointed Date, CA – Concession Agreement, FC – Financial Closure, ETR – Effective Tax Rate, MAT – Minimum Alternate Tax

**FIG 2 – KEY FINANCIALS (STANDALONE)**

Company YE Mar	Revenue (Rs bn)			CAGR (%)		EBITDA (Rs bn)			CAGR (%)		PBT (Rs bn)			CAGR (%)			EBITDA margins (%)			PBT margins (%)		
	FY20E	FY21E	FY22E	FY16-19	FY19-22E	FY20E	FY21E	FY22E	FY16-19	FY19-22E	FY20E	FY21E	FY22E	FY16-19	FY19-22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	
ASBL	44.3	50.6	55.9	25.3	13.5	5.6	6.3	6.7	27.6	9.2	4.3	4.9	5.1	29.7	3.5	12.6	12.5	12.0	9.8	9.6	9.2	
DBL	100.5	112.7	126.6	30.7	11.6	17.7	19.8	22.2	26.1	11.4	7.7	9.6	11.7	47.4	13.4	17.6	17.5	17.5	7.7	8.5	9.2	
HGIEL	24.7	29.7	34.6	41.3	19.8	3.7	4.4	5.2	57.2	19.4	2.4	3.0	3.6	60.4	23.6	14.9	14.9	14.9	9.8	10.1	10.4	
KNRC	25.2	34.0	35.6	33.3	18.5	4.3	5.9	5.9	40.8	11.4	2.5	3.8	3.8	30.5	11.5	17.0	17.3	16.6	9.9	11.2	10.7	
PNCL	48.2	60.7	64.9	15.1	28.3	6.6	8.4	9.0	17.5	27.7	4.9	6.2	6.6	16.4	29.4	13.8	13.8	13.8	10.3	10.3	10.2	
SADE	34.5	40.4	46.4	3.7	9.4	4.2	4.8	5.5	8.5	9.0	2.2	2.9	3.5	8.9	10.5	12.2	12.0	12.0	6.3	7.1	7.5	

Source: Company, BOBCAPS Research

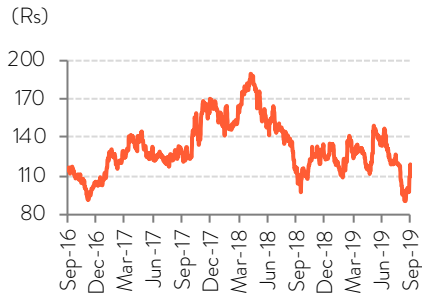
**FIG 3 – VALUATION SUMMARY (STANDALONE)**

Company YE Mar	M Cap (Rs bn)	Price* (Rs)	Target Price (Rs)	Rating	Upside (%)	P/E (x)			Value of Assets (Rs)	Implied P/E (x)**			EV/EBITDA (x)**			P/BV (x)		
						FY20E	FY21E	FY22E		FY20E	FY21E	FY21E	FY20E	FY21E	FY22E	FY20E	FY22E	FY21E
ASBL	30.9	110	185	BUY	68.3	9.5	8.5	8.0	74	3.3	3.0	2.8	4.2	3.6	3.4	1.2	1.1	1.0
DBL	59.9	438	610	BUY	39.2	10.4	8.4	6.9	87	8.4	6.7	5.5	4.7	4.1	3.4	1.6	1.3	1.1
HGIEL	12.8	197	395	BUY	101.0	7.0	5.7	4.8	17	6.4	5.2	4.4	3.9	2.9	2.2	1.5	1.2	1.0
KNRC	32.4	231	360	BUY	56.1	15.8	11.4	11.4	76	10.6	7.6	7.6	6.2	4.1	3.6	2.0	1.7	1.5
PNCL	48.8	190	250	BUY	31.4	13.2	10.5	9.8	44	10.2	8.1	7.6	6.9	5.4	4.7	1.9	1.6	1.4
SADE	23.8	139	175	BUY	26.3	14.6	11.0	9.1	55	8.8	6.6	5.5	7.3	6.1	5.2	1.1	1.0	0.9

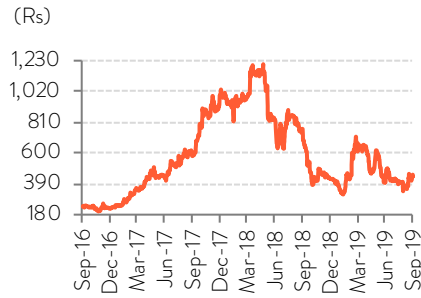
Source: Company, BOBCAPS Research | \* As on 24-Sep; \*\*Ex-investment in SPVs

Stock performance

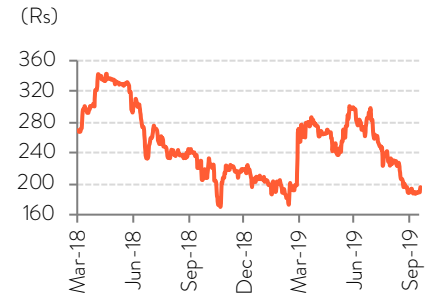
**FIG 4 – ASHOKA BUILDCON**



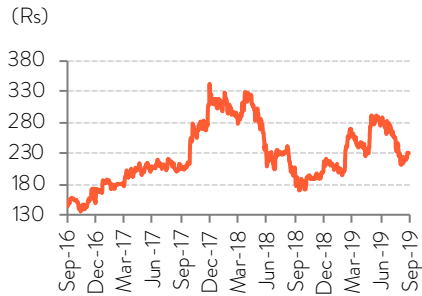
**FIG 5 – DILIP BUILDCON**



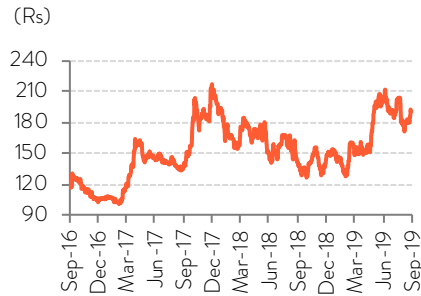
**FIG 6 – HG INFRA ENGINEERING**



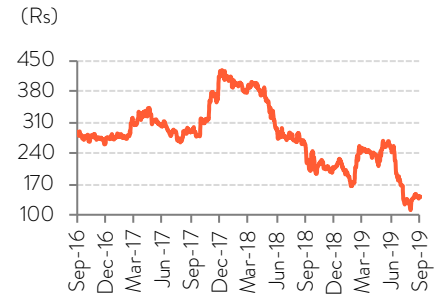
**FIG 7 – KNR CONSTRUCTIONS**



**FIG 8 – PNC INFRA TECH**



**FIG 9 – SADBHAV ENGINEERING**



Source: NSE

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

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**SELL** – Expected return <-5%

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