**BUY**
TP: Rs 235 | ▲ 26%

**PNC INFRATECH** | Infrastructure | 28 May 2019

## Execution hits new high; outlook buoyant

**PNC Infratech's (PNCL) Q4FY19 revenue surpassed expectations, scaling a new high of Rs 10.8bn (+54% YoY) fuelled by strong execution. Core EBITDA margins grew 30bps YoY to 14.1% and reported PAT was up 26% to Rs 1.4bn aided by a prior-period tax reversal of Rs 658mn. Better receivables and gross debt reduction were other key highlights. PNCL's Mar'19 order backlog stood at Rs 131.5bn and is ~93% executable. Post a stellar Q4, we upgrade FY20/FY21 EPS by 13.9%/15.7% and revise our Mar'20 TP to Rs 235 (vs. Rs 210).**

**Jiten Rushi**
research@bobcaps.in

**Execution accelerates:** A strong order backlog aided a 53.5% YoY surge in Q4 revenue to Rs 10.8bn (Rs 9.1bn est.). EBITDA rose 47% YoY to Rs 1.5bn and core EBITDA margins (adj. for price variation claims in Q4FY18) stood at 14.1% vs. 13.5% estimated led by a better revenue mix and operational efficiency. Adj. PAT beat estimates, rising 5% YoY to Rs 741mn (Rs 569mn est.). The order backlog was at Rs 131.5bn as on Mar'19, 4.3x FY19 revenues (incl. L1 Rs 9.4bn). During Q4, appointed dates (AD) were awarded for two of the pending three HAM projects, taking the executable order backlog share to ~93%. Led by a robust order book, we forecast a 41% revenue CAGR over FY19-FY21.

**Improvement in receivables and leverage:** Led by strong recoveries from the NHAI and state authorities during the quarter, receivable days improved to 73 days as on Mar'19 (114 in Sep'18 and 155 in Mar'18). The guidance for Mar'20 stands at 95 days. Gross debt as on Mar'19 reduced to Rs 3.8bn (vs. Rs 4.5bn in Dec'18), with net D/E at 0.03x. Improved recoveries and strong cash generation kept leverage under control.

**Maintain BUY:** We upgrade our FY20/FY21 EPS estimates by 13.9%/15.7% to factor in higher revenue, improved margins and lower interest cost post gross debt reduction, leading to a revised Mar'20 TP of Rs 235.

### KEY FINANCIALS (STANDALONE)

| Y/E 31 Mar | FY17A | FY18A | FY19A | FY20E | FY21E |
|---|---|---|---|---|---|
| Adj. net profit (Rs mn) | 1,844 | 1,604 | 2,414 | 3,452 | 4,090 |
| Adj. EPS (Rs) | 7.2 | 6.3 | 9.4 | 13.5 | 15.9 |
| Adj. EPS growth (%) | (5.7) | (13.0) | 50.5 | 43.0 | 18.5 |
| Adj. ROAE (%) | 12.5 | 9.5 | 12.3 | 15.1 | 15.5 |
| Adj. P/E (x) | 26.0 | 29.8 | 19.8 | 13.9 | 11.7 |
| EV/EBITDA (x) | 21.2 | 18.8 | 11.1 | 7.1 | 6.4 |

Source: Company, BOBCAPS Research

| | |
|---|---|
| Ticker/Price | PNCL IN/Rs 187 |
| Market cap | US$ 687.9mn |
| Shares o/s | 257mn |
| 3M ADV | US$ 0.5mn |
| 52wk high/low | Rs 198/Rs 122 |
| Promoter/FPI/DII | 56%/6%/21% |

Source: NSE

### STOCK PERFORMANCE




Source: NSE

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**
Important disclosures, including any required research certifications, are provided at the end of this report.

## FIG 1 – STANDALONE QUARTERLY PERFORMANCE

| Particulars (Rs mn) | Q4FY19 | Q4FY18 | YoY (%) | Q3FY19 | QoQ (%) | FY19 | FY18 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **10,757** | **7,007** | **53.5** | **7,270** | **48.0** | **30,716** | **17,984** | **70.8** |
| RM cost/contract paid | 7,342 | 4,895 | 50.0 | 4,983 | 47.3 | 21,140 | 12,242 | 72.7 |
| Change in inventories | - | - | - | - | | - | - | - |
| Employee benefit expenses | 544 | 376 | 44.7 | 552 | (1.4) | 1,923 | 1,240 | 55.1 |
| Other expenses | 1,360 | 709 | 91.9 | 714 | 90.4 | 3,333 | 1,896 | 75.8 |
| **Total Expenses** | **9,245** | **5,980** | **54.6** | **6,249** | **48.0** | **26,395** | **15,378** | **71.6** |
| **EBITDA** | **1,512** | **1,027** | **47.2** | **1,021** | **48.0** | **4,320** | **2,606** | **65.8** |
| EBITDA margin (%) | 14.1 | 14.7 | (60bps) | 14.0 | 0.5bps | 14.1 | 14.5 | (40bps) |
| Other income | 123 | 66 | 84.5 | 68 | 79.9 | 430 | 230 | 86.9 |
| Depreciation | 282 | 217 | 30.1 | 241 | 16.9 | 922 | 772 | 19.5 |
| **EBIT** | **1,352** | **876** | **54.3** | **848** | **59.4** | **3,828** | **2,064** | **85.5** |
| EBIT margin (%) | 12.6 | 12.5 | 6bps | 11.7 | 90bps | 12.5 | 11.5 | 100bps |
| Interest | 194 | 85 | 127.2 | 187 | 3.6 | 640 | 307 | 108.5 |
| **PBT** | **1,158** | **791** | **46.4** | **661** | **75.3** | **3,188** | **1,757** | **81.4** |
| **Tax provision** | **417** | **83** | **399.4** | **188** | **122.1** | **774** | **153** | **406.8** |
| Current tax | 389 | 78 | 397.0 | 187 | 107.7 | 753 | 148 | 407.9 |
| Deferred tax | 28 | 5 | 436.7 | 0 | nm | 20 | 4 | 371.7 |
| Effective tax rate (%) | 36.0 | 10.5 | 2,545bps | 28.4 | 760bps | 24.3 | 8.7 | 1,560bps |
| **Adjusted PAT** | **741** | **708** | **4.8** | **473** | **56.7** | **2,414** | **1,604** | **50.5** |
| Exceptional items | 658 | 408 | 61.4 | - | - | 835 | 906 | (7.9) |
| **Reported PAT** | **1,399** | **1,115** | **25.5** | **473** | **195.7** | **3,249** | **2,510** | **29.4** |
| Adjusted PAT margin (%) | 6.9 | 10.1 | (320bps) | 6.5 | 40bps | 7.9 | 8.9 | (105bps) |
| **EPS (Rs)** | **2.9** | **2.8** | **4.8** | **1.8** | **56.7** | **9.4** | **6.3** | **50.5** |
| **Growth YoY (%)** | | | | | | | | |
| Revenue | 53.5 | 99.9 | - | 53.9 | - | 70.8 | 6.5 | - |
| EBITDA | 47.2 | 116.5 | - | 54.1 | - | 65.8 | 17.9 | - |
| Other income | 84.5 | (37.3) | - | 20.3 | - | 86.9 | (50.6) | - |
| Interest | 127.2 | 2.1 | - | 187.9 | - | 108.5 | 51.3 | - |
| Depreciation | 30.1 | 54.4 | - | 23.5 | - | 19.5 | 44.8 | - |
| PBT | 46.4 | 122.0 | - | 44.1 | - | 81.4 | (9.4) | - |
| Adjusted PAT | 4.8 | 109.7 | - | 9.5 | - | 50.5 | (13.0) | - |
| Reported PAT | 25.5 | 230.5 | - | (49.1) | - | 29.4 | 19.7 | - |
| EPS | 4.8 | 109.7 | - | 9.5 | - | 50.5 | (13.0) | - |

Source: Company, BOBCAPS Research

## FIG 2 – EXECUTABLE ORDER BACKLOG SHARE OF ~93% AS ON MAR'19

| (Rs mn) | FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | FY19 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Order inflow | 12,404 | - | - | 36,001 | - | 36,001 | - | - | 25,200 | 48,985 | 74,185 |
| Order backlog | 53,790 | 50,650 | 48,350 | 79,760 | 73,180 | 73,180 | 66,170 | 61,190 | 79,650 | 1,22,100 | 1,22,100 |
| L1 project | - | - | - | - | - | - | - | - | - | 9,350 | 9,350 |
| **Order backlog including L1** | **53,790** | **50,650** | **48,350** | **79,760** | **73,180** | **73,180** | **66,170** | **61,190** | **79,650** | **1,31,450** | **1,31,450** |
| Book to bill (x) | 3.2 | 3.3 | 3.4 | 5.5 | 4.1 | 4.1 | 3.1 | 2.5 | 3.0 | 4.3 | 4.3 |

Source: Company, BOBCAPS Research

## Earnings call highlights

- **FY20 guidance:** Management has guided for revenue growth of 45-50%, EBITDA margins in the range of 13.75-14%, order inflows of Rs 70bn-80bn, mobilisation advances of ~Rs 2.5bn and equity investment of ~Rs 2.8bn in HAM projects. Tax rate is guided at ~30%, capex at ~Rs 1.3bn, cash and bank balance at ~Rs 1bn, gross debt at ~Rs 4.8bn, receivables at 95 days and working capital at 110 days. The company plans to bid for projects in the roads and airport EPC segments during the year.

- **HAM projects:** PNCL has received the AD for Chakeri-Allanabad on 12 Jan and for Aligarh-Kanpur on 25 Feb this year. These projects are well underway and work to the extent of Rs 2bn and Rs 1.4bn respectively was completed in Q4FY19. Revenue booking shall start from Q1FY20. For the final HAM project of Challakere-Hariyur, the AD is expected by Sep'19 (80% land available). Balance equity requirement for HAM contracts totals Rs 6bn, to be invested over two years (Rs 2.8bn in FY20/Rs 3.2bn in FY21).

- **Gross toll collection:** Gross toll collection totalled Rs 2.4bn in Q4FY19, as illustrated in the table alongside.

- **Identified bids:** According to management, the current bid pipeline from NHAI is for 86 projects (39 EPC and 47 HAM), of which PNCL has identified 36 worth Rs 360bn (mix of EPC and HAM) for bidding in the near term. The company has also submitted bids for select projects of two large packages from Uttar Pradesh roads authority UPEIDA, viz.: (i) Rs 90bn Bundelkhand expressway and (ii) Rs 30bn Gorakhpur link expressway. The bids for these are expected to be opened by end-Jun'19.

- **Mumbai-Nagpur road project:** Execution on the Mumbai-Nagpur Super Expressway should pick up from Q1FY20 led by clearance received for mining of aggregates. Management expects ~30% execution in FY20.

- **Ghaziabad-Aligarh BOT stake divestment:** In May, PNCL entered into a share purchase agreement (SPA) with Cube Highways for an entire stake sale in the Ghaziabad-Aligarh BOT toll road project (PNCL's stake at 35%, BRNL at 39% and Galfar at 26%) at an enterprise value of Rs 18.3bn (of which the outstanding debt component stood at Rs 10.6bn). Concluded at ~1x P/BV, the deal is expected to fetch cash of over Rs 3bn.

  PNCL's investments of ~Rs 3.2bn in the project are as follows: equity investment at Rs 680mn, total of warrants and loans & advances at ~Rs 1.9bn, and outstanding receivables at Rs 620mn. According to management, the deal is likely to be concluded over the next 2-3 months upon receipt of NOC from NHAI and lenders. Divestment proceeds are expected to augment PNCL's financial resources to fund present and future

**Q4 GROSS TOLL COLLECTION**

| Project | Collections (Rs mn) |
|---|---|
| Gwalior-Bhind | 143 |
| Kanpur-Ayodhya | 998 |
| Kanpur-Kabrai | 239 |
| Narela Indl Estate | 104.8 |
| Bareilly-Almora | 95 |
| Raibareli-Jaunpur | 321.6* |
| Ghaziabad-Aligarh | 530 |

Source: Company, BOBCAPS Research | *Annuity project

projects. We continue to include the value of Rs 6.5/sh for Ghaziabad-Aligarh in our estimates pending clarity on final conclusion of the deal.

- **Early completion bonus for Aligarh-Moradabad highway:** On 13 May, PNCL received a Provisional Completion Certificate (PCC) for the Aligarh-Moradabad contract executed on EPC mode, with completion 73 days ahead of schedule. This entitles the company to an early completion bonus of Rs 141.1mn (at 0.03% of the Rs 6.4bn contract price for each day of early completion), which is likely to be realised in H1FY20.
- **Final arbitration award received for Narela Industrial Estate:** On 17 May 2019, PNCL's 100% subsidiary and SPV – PNC Delhi Industrial Infra Private Limited – received the final portion of the Rs 1.9bn arbitration award, totalling Rs 1.5bn (Rs 430mn received in Jan'19), for the Narela Industrial Estate project. Of this, Rs 1.3bn is towards the six outstanding annuities and Rs 596.3mn is for interest and other claims.
- **Capex:** Q4FY19 capex rose to ~Rs 1.3bn, taking the outlay for FY19 to ~Rs 3bn (Rs 2.5bn est.). This resulted in higher depreciation in Q4 at Rs 282mn (Rs 259mn est.), up 30% YoY and 17% QoQ. For FY20, management has guided for capex of Rs 1.3bn.
- **Credit rating:** PNCL's credit rating stands reaffirmed at 'CARE AA-' for long-term bank facilities and 'CARE A1+' for short-term facilities. The fund-/non-fund-based limits stand at Rs 7.5bn/Rs 33.5bn as on Mar'19.
- **Dividend:** The company has declared dividend of Rs 0.5/sh (25%).

## FIG 3 – PENDING EQUITY COMMITMENT OF ~RS 6BN IN 7 HAM PROJECTS TO BE INVESTED OVER ~2 YEARS

| Projects/State (Rs mn) | Length (km) | BPC | TPC | Debt | Equity | NHAI Grant | Equity % of TPC | Equity Infused upto Mar-19 | Debt Infused upto Mar-19 | Financial closure date | Appointed date | Concession period (years) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dausa-Lalsot, Rajasthan | 83 | 8,810 | 8,200 | 3,710 | 660 | 3,840 | 8.0 | 590 | 2,610 | 03-Apr-17 | 31-May-17 | 17.5 |
| Chitradurga-Davanagere, Karnataka | 73 | 14,340 | 13,380 | 6,060 | 1,070 | 6,250 | 8.0 | 550 | 2,450 | 12-Dec-17 | 27-Dec-17 | 17.5 |
| Jhansi-Khajuraho (Pkg I), UP & MP | 77 | 14,100 | 13,420 | 6,040 | 1,280 | 6,100 | 9.5 | 640 | 1,400 | 01-Nov-17 | 18-May-18 | 17.0 |
| Jhansi-Khajuraho (Pkg II), UP & MP | 85 | 13,100 | 12,620 | 5,900 | 1,040 | 5,680 | 8.2 | 430 | 2,330 | 02-Nov-17 | 13-Feb-18 | 17.0 |
| Chakeri-Allahabad, UP | 145 | 21,590 | 20,180 | 8,730 | 1,920 | 9,530 | 9.5 | 38 | - | 20-Sep-18 | 12-Jan-19 | 17.5 |
| Aligarh-Kanpur (Pkg II), UP | 43 | 11,970 | 11,040 | 5,000 | 1,250 | 4,790 | 11.3 | 33 | - | 05-Nov-18 | 25-Feb-19 | 17.0 |
| Challakere-Hariyur, Karnataka | 56 | 11,570 | 10,130 | 4,400 | 1,100 | 4,630 | 10.9 | 33 | - | 07-Dec-18 | Pending; likely by Sep'19 | 17.0 |
| **Total** | | **95,480** | **88,970** | **39,840** | **8,320** | **40,820** | | **2,313** | **8,790** | | | |

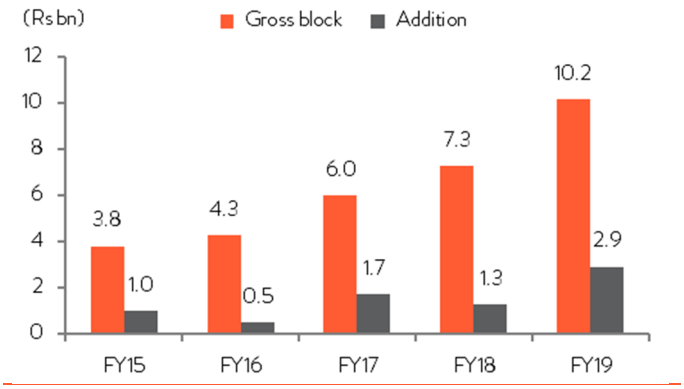
Source: Company, BOBCAPS Research

## FIG 4 – GROSS TOLL COLLECTION TREND

| Projects (Rs mn) | FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | FY19 | FY20E | FY21E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Raibareilly-Jaunpur | 1,286 | 322 | 322 | 322 | 322 | 1,286 | 322 | 322 | 322 | 321 | 1,286 | 1,290 | 1,286 |
| Bareilly-Almora | 384 | 110 | 100 | 110 | 105 | 425 | 105 | 90 | 99 | 95 | 389 | 429 | 474 |
| Ghaziabad-Aligarh | 1,648 | 478 | 440 | 510 | 510 | 1,938 | 524 | 504 | 540 | 530 | 2,098 | 2,269 | 2,554 |
| Kanpur-Ayodhya | 2,526 | 671 | 660 | 810 | 774 | 2,915 | 860 | 780 | 963 | 998 | 3,601 | 3,970 | 4,386 |
| Kanpur-Kabrai | 749 | 191 | 173 | 210 | 299 | 873 | 290 | 170 | 250 | 239 | 949 | 1,046 | 1,156 |
| Gwalior-Bhind | 555 | 154 | 116 | 172 | 173 | 615 | 115 | 95 | 128 | 143 | 481 | 588 | 671 |
| Narela Industrial area | 389 | 100 | 95 | 108 | 97 | 400 | 98 | 100 | 100 | 105 | 403 | 411 | 482 |
| **Total** | **7,538** | **2,026** | **1,906** | **2,242** | **2,279** | **8,452** | **2,314** | **2,061** | **2,402** | **2,431** | **9,208** | **10,002** | **11,009** |
| **Like-to-Like (ex Raibareilly Jaunpur and Narela)** | **5,863** | **1,604** | **1,489** | **1,812** | **1,861** | **6,766** | **1,895** | **1,639** | **1,980** | **2,005** | **7,519** | **8,301** | **9,241** |
| **% growth YoY** | **75.9** | **2.4** | **18.9** | **(7.7)** | **12.5** | **15.4** | **18.1** | **10.1** | **9.3** | **7.7** | **11.1** | **10.4** | **11.3** |
| **% growth YoY (toll projects)** | | | | | | | | | | | | | |
| Bareilly-Almora | na | 14.9 | 13.6 | (11.4) | 4.0 | 10.6 | (4.8) | (10.0) | (10.0) | (9.5) | (8.5) | 10.2 | 10.5 |
| Ghaziabad-Aligarh | na | 29.2 | 33.3 | (5.2) | (3.4) | 17.6 | 9.7 | 14.5 | 5.9 | 3.9 | 8.3 | 8.1 | 12.6 |
| Kanpur-Ayodhya | 8.3 | (3.8) | 17.5 | (6.8) | 22.1 | 15.4 | 28.2 | 18.2 | 18.9 | 29.0 | 23.5 | 10.2 | 10.5 |
| Kanpur-Kabrai | na | (22.7) | 25.9 | (28.7) | 30.0 | 16.5 | 51.8 | (1.7) | 19.0 | (20.1) | 8.7 | 10.2 | 10.5 |
| Gwalior-Bhind | 18.1 | (1.0) | (13.8) | 24.6 | 7.5 | 10.8 | (25.1) | (18.1) | (25.6) | (17.4) | (21.8) | 22.2 | 14.2 |

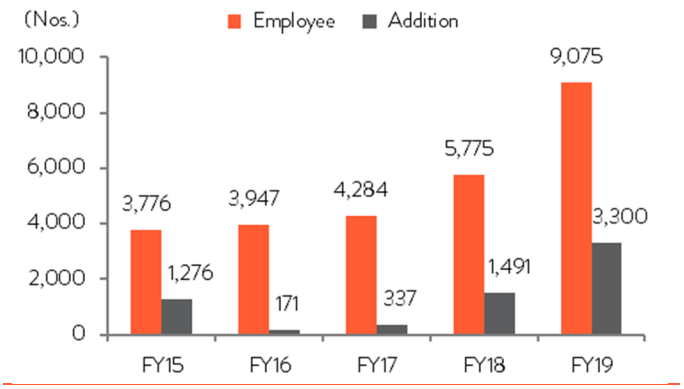
Source: Company, BOBCAPS Research

## FIG 5 – CAPEX OF ~RS 3BN IN FY19




Source: Company, BOBCAPS Research

## FIG 6 – STRONG IN-HOUSE EXECUTION TEAM




Source: Company, BOBCAPS Research

## FIG 7 – CONSOLIDATED INCOME STATEMENT

| Particulars (Rs mn) | FY19 | FY18 | YoY (%) |
|---|---|---|---|
| **Revenue*** | **37,491** | **23,532** | **59** |
| **EBITDA*** | **9,815** | **7,109** | **38** |
| EBITDA margin* | 26.2 | 30.2 | (403bps) |
| Bonus | 253 | 582 | - |
| Other Income | 466 | 244 | - |
| Depreciation | 3,465 | 2,618 | - |
| Interest | 3,480 | 3,093 | - |
| **Profit Before Tax** | **3,590** | **2,223** | **61** |
| Total Tax Expenses | 83 | (267) | - |
| Current Tax | 897 | 353 | - |
| Taxation in respect of earlier years | (658) | (499) | - |
| Deferred Tax | (157) | (121) | - |
| **Net Profit from Continuing Operations** | **3,507** | **2,490** | **41** |
| Share in Profit /(Loss) of Associates and Joint Ventures accounted for using equity method | 7 | (60) | - |
| **Net Profit After Tax** | **3,514** | **2,430** | **45** |
| PAT Margin | 9.4 | 10.3 | (95bps) |
| Total other Comprehensive income, net of tax | (10) | (3) | - |
| Total Comprehensive income for the Period | 3,504 | 2,428 | 44 |
| **Cash Profit (Total Comprehensive Income + Depreciation)** | **6,969** | **5,046** | **38** |
| Cash Profit Margin | 18.6 | 21.4 | (285bps) |

Source: Company, BOBCAPS Research | *EPC segment excludes bonus of Rs 253mn from Q1FY19 and Rs 582.3mn from Q4FY18

## FIG 8 – CONSOLIDATED BALANCE SHEET

| (Rs mn) | Mar-19 | Mar-18 |
|---|---|---|
| **ASSETS** | | |
| **(1) NON-CURRENT ASSETS** | | |
| (a) Property, plant & equipment | 6,167 | 4,092 |
| (b) Capital work-in-progress | 62 | 111 |
| (c) Intangible Asset | 16,171 | 18,695 |
| (d) Financial assets | | |
| (i) Investments | 299 | 292 |
| (ii) Trade Receivables | 21,960 | 16,403 |
| (iii) Other Financial Assets | 2,010 | 1,678 |
| (e) Deferred Tax Asset | 381 | 151 |
| (f) Other Non - current assets | 6,095 | 3,492 |
| **Sub Total (A)** | **53,145** | **44,914** |
| **(2) CURRENT ASSETS** | | |
| (a) Inventories | 4,036 | 1,758 |
| (b) Financial Assets | | |
| (i) Investments | 2,326 | 1,401 |
| (ii) Trade receivables | 5,194 | 5,945 |
| (iii) Cash and cash equivalents | 2,974 | 1,440 |
| (iv) Bank balances other than (iii) above | 1,110 | 412 |
| (iv) Other Financial Assets | 1,766 | 1,195 |
| (c) Current tax assets (net) | - | - |
| (d) Other current assets | 1,993 | 1,956 |
| **Sub Total (B)** | **19,398** | **14,107** |
| **Total Assets (A+B)** | **72,544** | **59,020** |
| **EQUITY AND LIABILITIES (Rs mn)** | | |
| **EQUITY** | | |
| (a) Equity Share capital | 513 | 513 |
| (b) Other equity | 19,731 | 16,374 |
| Non-Controlling Interest | - | 0 |
| **Sub Total (C)** | **20,244** | **16,887** |
| **LIABILITIES** | | |
| **(1) Non-Current Liabilities** | | |
| (a) Financial Liabilities | | |
| (i) Borrowings | 25,151 | 18,427 |
| (ii) Trade Payables | 8,373 | 9,882 |
| (iii) Other Financial Liabilities | 1,112 | 1,302 |
| (b) Provisions | 1,851 | 1,200 |
| (c) Deferred Tax Liability | - | - |
| (d) Other Non-Current Liabilities | 4,384 | 1,556 |
| **Sub Total (D)** | **40,870** | **32,366** |
| **(2) Current Liabilities** | | |
| (a) Financial liabilities | | |
| (i) Borrowings | 195 | 225 |
| (ii) Trade Payables | 4,788 | 4,727 |
| (iii) Other Financial Liabilities | 4,633 | 2,649 |
| (b) Other current liabilities | 1,623 | 1,998 |
| (c) Provisions | 191 | 168 |
| **Sub Total (E)** | **11,430** | **9,767** |
| **Total Equity & Liabilities (C+D+E)** | **72,544** | **59,020** |

Source: Company, BOBCAPS Research

## Valuation methodology

PNCL, with its strong execution record and lean balance sheet, is well placed to benefit from the growth opportunities offered by India's roads sector. ADs for all the company's third-party EPC projects and for six HAM projects out of seven have come through, which should support strong growth.

Post a stellar Q4FY19 showing, we upgrade our FY20/FY21 EPS estimates by 13.9%/15.7% to factor in higher revenue, improved margins and lower interest cost in the wake of gross debt reduction. We now expect a robust 41% revenue CAGR and 36% PBT CAGR over FY19-FY21 on a standalone basis.

The stock is trading at 10.6x/9x FY20E/ FY21E standalone earnings adjusted for Rs 43/sh of BOT/HAM asset value. We reiterate BUY with a revised Mar'20 SOTP target price of Rs 235 (from Rs 210). Within our SOTP model, we value (a) the standalone EPC business at Rs 191/sh based on 12x FY21E earnings, (b) the BOT business at Rs 24/sh using the discount rates of 11-15% for BOT toll/annuity-based projects to arrive at the Mar'20E NPV of FCFE, and (c) HAM projects at Rs 20/sh on P/BV basis (implied P/BV of 1x for equity investment in seven projects as on Mar'20).

**FIG 9 – REVISED ESTIMATES**

| (Rs mn) | FY20E | | | FY21E | | |
|---|---|---|---|---|---|---|
| | Old | New | Change (%) | Old | New | Change (%) |
| Revenue | 46,299 | 48,795 | 5.4 | 57,344 | 60,663 | 5.8 |
| EBITDA | 6,257 | 6,843 | 9.4 | 7,763 | 8,484 | 9.3 |
| EBITDA margin (%) | 13.5 | 14.0 | 50bps | 13.5 | 14.0 | 45bps |
| Adjusted PAT | 3,031 | 3,452 | 13.9 | 3,535 | 4,090 | 15.7 |
| PAT margin (%) | 6.5 | 7.1 | 53bps | 6.2 | 6.7 | 58bps |

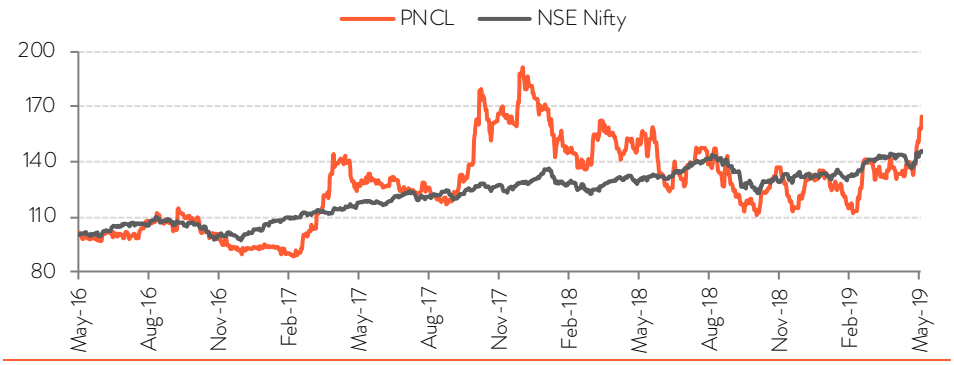
Source: Company, BOBCAPS Research

**FIG 10 – SOTP-BASED TARGET PRICE OF RS 235**

| Business | Basis of valuation | Value (Rs mn) | Multiple (x) | Valuation (Rs mn) | Per share (Rs) |
|---|---|---|---|---|---|
| Standalone business (EPC) | P/E on FY21E earnings | 4,090 | 12 | 49,081 | 191 |
| Value of subsidiaries/associates | | | | | 43 |
| -BOT (operational assets) | NPV of FCFE as on Mar'20E | 6,033 | - | 6,033 | 24 |
| -7 HAM projects | P/BV - Equity investment as on Mar'20E | 5,083 | 1.0 | 5,083 | 20 |
| **Total** | | **10,123** | | **55,114** | **235** |
| Shares outstanding (mn) | | | | 257 | |

Source: Company, BOBCAPS Research

**FIG 11 – RELATIVE STOCK PERFORMANCE**




Source: NSE

## Key risks

- **Political risk:** PNCL has a strong presence in its home state of Uttar Pradesh. Any slowdown in state government spending may affect the company's growth prospects.
- **Downturn in road sector capex:** Capex in the road sector has witnessed some revival over the last two years. Any slowdown in project awarding would impact the company's growth and our estimates.
- **Concentrated order backlog:** Close to ~62% of PNCL's current order backlog (including L1 positions) is from Uttar Pradesh. Any delay or execution constraints on these projects will significantly affect our revenue and profit estimates.

## FINANCIALS (STANDALONE)

### Income Statement

| Y/E 31 Mar (Rs mn) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---|---|---|---|---|---|
| **Total revenue** | **16,891** | **17,983** | **30,716** | **48,795** | **60,663** |
| EBITDA | 2,210 | 2,606 | 4,320 | 6,843 | 8,484 |
| EBIT | 1,677 | 1,834 | 3,398 | 5,624 | 7,087 |
| Net interest income/(expenses) | (203) | (307) | (641) | (1,070) | (1,594) |
| Other income/(expenses) | 466 | 230 | 430 | 377 | 392 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 1,939 | 1,757 | 3,187 | 4,932 | 5,885 |
| Income taxes | 95 | 153 | 774 | 1,479 | 1,795 |
| Extraordinary items | 252 | 906 | 835 | 0 | 0 |
| Min. int./Inc. from associates | 0 | 0 | 0 | 0 | 0 |
| **Reported net profit** | **2,097** | **2,510** | **3,249** | **3,452** | **4,090** |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| **Adjusted net profit** | **1,844** | **1,604** | **2,414** | **3,452** | **4,090** |

### Balance Sheet

| Y/E 31 Mar (Rs mn) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---|---|---|---|---|---|
| Accounts payables | 2,369 | 4,628 | 4,737 | 8,021 | 9,972 |
| Other current liabilities | 0 | 0 | 0 | 0 | 0 |
| Provisions | 241 | 176 | 117 | 535 | 665 |
| Debt funds | 1,473 | 1,697 | 3,750 | 7,800 | 10,575 |
| Other liabilities | 4,132 | 3,296 | 7,399 | 11,363 | 13,628 |
| Equity capital | 513 | 513 | 513 | 513 | 513 |
| Reserves & surplus | 15,209 | 17,554 | 20,639 | 23,937 | 27,872 |
| Shareholders' fund | 15,722 | 18,067 | 21,152 | 24,450 | 28,385 |
| **Total liabilities and equities** | **23,937** | **27,864** | **37,155** | **52,169** | **63,225** |
| Cash and cash eq. | 355 | 1,473 | 3,094 | 1,032 | 1,062 |
| Accounts receivables | 7,440 | 7,632 | 6,154 | 15,100 | 18,780 |
| Inventories | 1,535 | 1,758 | 4,036 | 6,016 | 7,479 |
| Other current assets | 0 | 0 | 0 | 0 | 0 |
| Investments | 4,676 | 4,948 | 5,730 | 8,501 | 11,737 |
| Net fixed assets | 3,479 | 4,064 | 6,155 | 6,437 | 6,790 |
| CWIP | 78 | 111 | 62 | 62 | 62 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets, net | 23 | 20 | 5 | (20) | (49) |
| Other assets | 6,352 | 7,858 | 11,919 | 15,041 | 17,364 |
| **Total assets** | **23,937** | **27,864** | **37,155** | **52,169** | **63,225** |

Source: Company, BOBCAPS Research

## Cash Flows

| Y/E 31 Mar (Rs mn) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---|---|---|---|---|---|
| Net income + Depreciation | 2,630 | 3,282 | 4,171 | 4,670 | 5,487 |
| Interest expenses | 203 | 307 | 641 | 1,070 | 1,594 |
| Non-cash adjustments | (252) | (498) | 0 | 0 | 0 |
| Changes in working capital | (2,520) | (560) | (693) | (6,357) | (3,092) |
| Other operating cash flows | 0 | 0 | 0 | 0 | 0 |
| **Cash flow from operations** | **61** | **2,531** | **4,119** | **(617)** | **3,990** |
| Capital expenditures | (1,946) | (1,391) | (2,964) | (1,500) | (1,750) |
| Change in investments | (32) | (272) | (782) | (2,771) | (3,237) |
| Other investing cash flows | 0 | 0 | 0 | 0 | 0 |
| **Cash flow from investing** | **(1,979)** | **(1,663)** | **(3,746)** | **(4,271)** | **(4,987)** |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | 1,411 | 224 | 2,053 | 4,050 | 2,775 |
| Interest expenses | (203) | (307) | (641) | (1,070) | (1,594) |
| Dividends paid | (150) | (150) | (154) | (154) | (154) |
| Other financing cash flows | 244 | 483 | (9) | 0 | 0 |
| **Cash flow from financing** | **1,302** | **250** | **1,249** | **2,826** | **1,027** |
| **Changes in cash and cash eq.** | **(616)** | **1,118** | **1,621** | **(2,062)** | **29** |
| **Closing cash and cash eq.** | **355** | **1,473** | **3,094** | **1,032** | **1,062** |

## Per Share

| Y/E 31 Mar (Rs) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---|---|---|---|---|---|
| Reported EPS | 8.2 | 9.8 | 12.7 | 13.5 | 15.9 |
| Adjusted EPS | 7.2 | 6.3 | 9.4 | 13.5 | 15.9 |
| Dividend per share | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Book value per share | 61.3 | 70.4 | 82.4 | 95.3 | 110.6 |

## Valuations Ratios

| Y/E 31 Mar (x) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---|---|---|---|---|---|
| EV/Sales | 2.8 | 2.7 | 1.6 | 1.0 | 0.9 |
| EV/EBITDA | 21.2 | 18.8 | 11.1 | 7.1 | 6.4 |
| Adjusted P/E | 26.0 | 29.8 | 19.8 | 13.9 | 11.7 |
| P/BV | 3.0 | 2.6 | 2.3 | 2.0 | 1.7 |

## DuPont Analysis

| Y/E 31 Mar (%) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---|---|---|---|---|---|
| Tax burden (Net profit/PBT) | 95.1 | 91.3 | 75.7 | 70.0 | 69.5 |
| Interest burden (PBT/EBIT) | 115.7 | 95.8 | 93.8 | 87.7 | 83.0 |
| EBIT margin (EBIT/Revenue) | 9.9 | 10.2 | 11.1 | 11.5 | 11.7 |
| Asset turnover (Revenue/Avg TA) | 78.9 | 69.4 | 94.5 | 109.3 | 105.1 |
| Leverage (Avg TA/Avg Equity) | 1.5 | 1.5 | 1.7 | 2.0 | 2.2 |
| Adjusted ROAE | 12.5 | 9.5 | 12.3 | 15.1 | 15.5 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Ratio Analysis

| Y/E 31 Mar | FY17A | FY18A | FY19A | FY20E | FY21E |
|---|---|---|---|---|---|
| **YoY growth (%)** | | | | | |
| Revenue | (16.1) | 6.5 | 70.8 | 58.9 | 24.3 |
| EBITDA | (16.9) | 17.9 | 65.8 | 58.4 | 24.0 |
| Adjusted EPS | (5.7) | (13.0) | 50.5 | 43.0 | 18.5 |
| **Profitability & Return ratios (%)** | | | | | |
| EBITDA margin | 13.1 | 14.5 | 14.1 | 14.0 | 14.0 |
| EBIT margin | 9.9 | 10.2 | 11.1 | 11.5 | 11.7 |
| Adjusted profit margin | 10.9 | 8.9 | 7.9 | 7.1 | 6.7 |
| Adjusted ROAE | 12.5 | 9.5 | 12.3 | 15.1 | 15.5 |
| ROCE | 10.8 | 9.9 | 15.2 | 19.7 | 19.9 |
| **Working capital days (days)** | | | | | |
| Receivables | 161 | 155 | 73 | 113 | 113 |
| Inventory | 33 | 36 | 48 | 45 | 45 |
| Payables | 51 | 94 | 56 | 60 | 60 |
| **Ratios (x)** | | | | | |
| Gross asset turnover | 3.3 | 2.7 | 3.5 | 4.4 | 4.8 |
| Current ratio | 2.3 | 2.3 | 2.1 | 1.9 | 1.8 |
| Net interest coverage ratio | 8.3 | 6.0 | 5.3 | 5.3 | 4.4 |
| Adjusted debt/equity | 0.1 | 0.0 | 0.0 | 0.3 | 0.3 |

Source: Company, BOBCAPS Research

# Disclaimer

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

**BUY –** Expected return >+15%

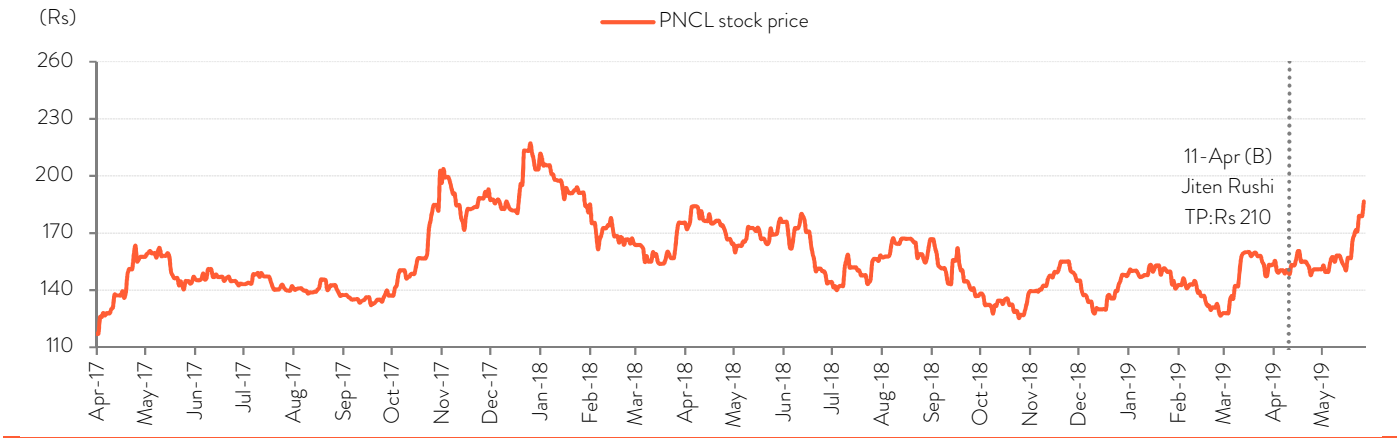
**ADD –** Expected return from >+5% to +15%

**REDUCE –** Expected return from -5% to +5%

**SELL –** Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

**HISTORICAL RATINGS AND TARGET PRICE: PNC INFRATECH (PNCL IN)**




B – Buy, A – Add, R – Reduce, S – Sell

**Rating distribution**

As of 30 April 2019, out of 77 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 19 are rated ADD, 8 are rated REDUCE and 6 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

**Analyst certification**

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

**General disclaimers**

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance, wealth management and portfolio management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

**Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.