

PNC Infratech

 29th June 2020

Reuters: PNCL:NS; Bloomberg: PNCL:IN

Further improvement in cashflows

PNC Infratech (PNC) has reported good set of numbers for 4QFY20 with EBITDA and PAT higher by 5% and 6%, respectively compared to consensus estimates. However, the bigger surprise was on the cash flow front as higher operating cash flows, lower capex and reduced working capital requirement resulted in higher cash inflows compared to our expectations. Net cash position as on FY20 improved to Rs4.18bn and working capital days reduced to 57 days from 91 days in FY19. PNC has been able to bag multiple HAM projects in its home state of Uttar Pradesh wherein execution is likely to start shortly. The company boasts of comfortable working capital situation, comfortable liquidity position, lucrative orderbook and potential to monetize its assets in future. Given these positives, we reiterate our positive stance on PNC and maintain it as one of our preferred Buy in the construction segment. We have tweaked our revenue and PAT estimates to factor in new orderbook position. As a result, our FY21 and FY22 PAT estimates are higher by 10.2% and 16.9%. We continue to value PNC based on SOTP method wherein we have valued the standalone EPC business at 10x FY22 PAT and added the value of investments in BOT and HAM projects at book value. Also, we have not added the value of recently bagged HAM projects that are awaiting appointed date (AD). Maintain BUY with a revised target price of Rs236 (Rs210 earlier).

4QFY20 performance: PNC reported good set of numbers for 4QFY20. Revenue at Rs11.6bn increased by 7.6% YoY and was marginally higher than consensus estimate. EBITDA increased by 3.4% YoY to Rs1.6bn and EBITDA margin stood at 13.5% (-60bps YoY). Adj. PAT declined by 45.6% YoY to Rs761mn, primarily due to higher finance and tax expenses, partially offset by higher other income. Revenue, EBITDA and PAT were 0.4%, 4.8% and 5.8% ahead of consensus estimates, respectively. For FY20, PNC reported revenue of Rs48.8bn, up 57.5% and EBITDA of Rs7.6bn, up 67.1%. EBITDA margin at 15.7% was up by 90bps. PAT at Rs4.6bn increased by 41.7%, owing to higher other income, partially offset by higher finance and tax expenses.

Equity requirement to be met through internal accruals: PNC has recently bagged five new HAM projects, which have equity requirement of Rs6bn. Existing projects have equity requirement of Rs8.5bn, out of which Rs4.4bn have already been invested. The management expects the incremental equity requirement to be met through internal accruals as cash flow from the EPC business is expected to be Rs17bn over the next 3 years.

Comfortable order book position: PNC reported closing order book of Rs86.3bn as on March 2020. However, this order book excludes 5 HAM projects with EPC portion in excess of Rs75bn. This translates into a book to bill ratio of more than 3x, giving ample revenue visibility. The management has set a target of adding new orders worth Rs70bn in FY21 and expects to bag more orders through the EPC route.

Asset monetization update: On 22nd June 2020, the company informed that the Share Purchase Agreement signed between Cube Highways and Infrastructure Pte. Ltd and the company for the sale of 35% share in the Ghaziabad-Aligarh SPV had lapsed and none of the parties decided to extend the validity further. We do not expect material impact of the same on cash flows and the company is already in discussion with another investor for the stake sale.

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
Net Sales	10,757	12,180	11,579	7.6	(4.9)
Operating Expenses	9,245	10,468	10,016	8.3	(4.3)
EBITDA	1,512	1,712	1,563	3.4	(8.7)
EBITDA Margin (%)	14.1%	14.1%	13.5%	(55)bps	(56)bps
Other Income	123	144	159	30.1	11.1
Interest Costs	194	401	316	63.1	(21.2)
Depreciation	282	326	324	14.7	(0.9)
PBT	1,158	1,128	1,083	(6.5)	(4.0)
Tax	-241	356	322	(233.5)	(9.7)
Reported PAT	1,399	771	761	(45.6)	(1.4)
Exceptional Items	-	-	-	-	-
Adjusted PAT	1,399	771	761	(45.6)	(1.4)
NPM (%)	13.0%	6.3%	6.6%	(644)bps	24bps
EPS (Rs.)	5.5	3.0	3.0	(45.4)	(1.1)

Source: Company, Nirmal Bang Institutional Equities Research

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BUY

Sector: Construction

CMP: Rs139

Target Price: Rs236

Upside: 70%

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Key Data

Current Shares O/S (man)	256.5
Mkt Cap (Rsbm/US\$m)	35.7/472.3
52 Wk H / L (Rs)	219/80
Daily Vol. (3M NSE Avg.)	166,872

Price Performance (%)

	1 M	6 M	1 Yr
PNC Infratech	35.4	(27.7)	(31.3)
Nifty Index	15.0	(14.4)	(12.4)

Source: Bloomberg

Exhibit 1: Detailed financials (Standalone)

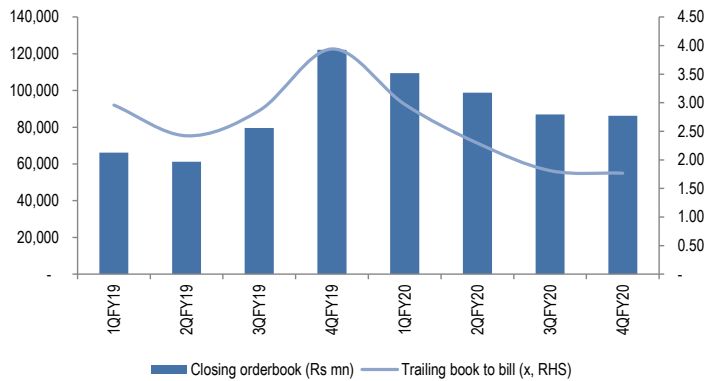
Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net Sales	10,757	12,180	11,579	7.6	(4.9)	30,969	48,779	57.5
Expenditure								
Cost of Materials Consumed	7,342	8,460	8,225	12.0	(2.8)	21,140	33,710	59.5
Employee Cost	9,245	10,468	10,016	8.3	(4.3)	26,395	41,136	55.8
Other Expense	1,360	1,154	1,168	(14.1)	1.2	3,333	4,775	43.3
Total Operating Expenses	9,245	10,468	10,016	8.3	(4.3)	26,395	41,136	55.8
EBITDA	1,512	1,712	1,563	3.4	(8.7)	4,573	7,643	67.1
EBITDA Margin (%)	14.1%	14.1%	13.5%	(55)bps	(56)bps	14.8%	15.7%	90bps
Other Income	123	144	159	30.1	11.1	430	885	105.6
Interest Costs	194	401	316	63.1	(21.2)	641	1,144	78.5
Depreciation	282	326	324	14.7	(0.9)	922	1,264	37.0
PBT	1,158	1,128	1,083	(6.5)	(4.0)	3,440	6,120	77.9
Tax	-241	356	322	(233.5)	(9.7)	191	1,517	693.1
Reported PAT	1,399	771	761	(45.6)	(1.4)	3,249	4,603	41.7
Exceptional Items	-	-	-	-	-	-	-	-
Adjusted PAT	1,399	771	761	(45.6)	(1.4)	3,249	4,603	41.7
NPM (%)	13.0%	6.3%	6.6%	(644)bps	24bps	10.5%	9.4%	(106)bps
EPS (Rs.)	5.5	3.0	3.0	(45.4)	(1.1)	12.7	18.0	41.7

Source: Company, Nirmal Bang Institutional Equities Research

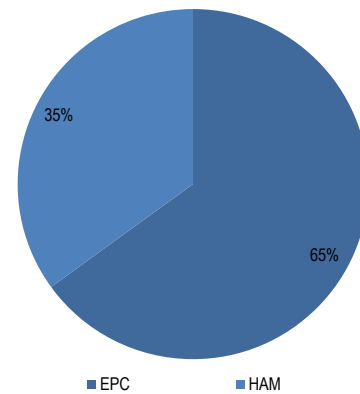
Exhibit 2: Financial Summary (Standalone)

Y/E March (Rsmm)	FY18	FY19	FY20	FY21E	FY22E
Revenue	18,566	30,969	48,779	51,161	60,370
EBITDA	3,188	4,573	7,643	7,082	8,754
EBITDA Margin (%)	17.2	14.8	15.7	13.8	14.5
Adj. PAT	2,511	3,249	4,603	3,488	4,739
EPS (Rs)	9.8	12.7	17.9	13.6	18.5
EPS Growth (%)	19.7	29.4	41.7	(24.2)	35.9
PE(x)	18.0	12.1	5.2	10.2	7.5
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	14.2	8.7	2.6	4.4	3.6
RoE (%)	14.9	16.6	19.7	12.8	15.2
RoCE (%)	14.0	15.7	17.6	12.8	14.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Orderbook excluding recent orders


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Orderbook Break-up


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Equity Requirement for HAM Projects

Particulars	Requirement	Up to FY19-20	FY20-21 Projected	FY21-22 Projected	FY22-23 Projected	Beyond FY22-23 Projected
Investment for HAM Projects	14,480	4,440	2,800	3,800	1,750	1,690

Source: Company, Nirmal Bang Institutional Equities Research, Note: - This includes equity requirement for recently won HAM projects worth Rs. 6bn

4QFY20 Conference Call Highlights

Impact of COVID

- The company's sites were closed for almost a month due to lockdown and currently it is operating at 75% efficiency due to supply chain disruption and migration of labour. The company expects normalcy to return post monsoon.
- Commercial traffic is back to pre-COVID levels, but the tolls are operating at 90% levels only.
- There has been no bidding activity during lockdown, but the NHAI has opened up bids for 100 projects, out of which the bid dates for 60 projects ranges between July and September.

New HAM Projects

- The company has won 4 new HAM Projects. They are
 1. Four laning of Unnao Lalganj section in Uttar Pradesh for a Bid Project Cost of Rs16.0bn
 2. Four laning of Jagdishpur Faizabad Section in Uttar Pradesh for a Bid Project Cost of Rs15.3bn
 3. Four laning of Aligarh- Kanpur Section in Uttar Pradesh for a Bid Project Cost of Rs20.5bn
 4. Four laning of Meerut Nazibabad section in Uttar Pradesh for a Bid Project Cost of Rs14.1bn
- 80% of RoW is completed and the rest is on track. The expected Appointed Date of all projects is between October 2020 and November 2020.
- Targeted order inflows for FY21 is Rs70bn with major focus on EPC projects.

Asset monetization

- Recently, the company announced the termination of the sale of 35% stake in the Ghaziabad-Aligarh SPV to Cube Highways due to expiration of the agreement period.
- The company was in talks with a few potential investors for monetization of HAM projects, but the same has been kept on hold due to sharp decrease in bank rate, which has resulted in lower valuations.

Debt

- For FY20, on a standalone basis, the gross debt was Rs3.3bn and net cash was Rs4.2bn.
- The company has a long-term target of debt to equity ratio of less than 1.5x.

Capex

- For FY20, the total capex was Rs780mn.
- For FY21, the expected capex is Rs700-750mn.

Others

- As of 31st March 2020, the mobilization advance was Rs6.9bn, which has now reduced to Rs5.7bn and retention money was Rs1.1bn.
- The company expects working capital days to remain within the range of 65-70 days.

Exhibit 6: Key changes in Estimates

Particulars (Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	50,226	51,161	1.9	58,262	60,370	3.6
EBITDA	6,847	7,082	3.4	8,040	8,754	8.9
PAT	3,165	3,488	10.2	4,063	4,739	16.6
EPS	12.3	13.6	10.2	15.8	18.5	16.6
TP (Rs)				210	236	12.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Valuation summary

Particulars	(Rs)
FY22E PAT	4,739
Target Multiple (x)	10
Equity value (Rs mn)	47,387
No of shares (mn)	257
Value per share (Rs)	185
Value of BOT projects (Rs)	18
Value of HAM projects (Rs)	33
Target Price (Rs)	236
CMP (Rs)	139
Potential upside/(downside) (%)	70%

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 8: Income statement

Y/E (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	18,566	30,969	48,779	51,161	60,370
growth (%)	9.9	66.8	57.5	4.9	18.0
Operating expenses	15,378	26,395	41,136	44,079	51,617
EBITDA	3,188	4,573	7,643	7,082	8,754
growth (%)	44.3	43.4	67.1	-7.3	23.6
Depreciation	772	922	1,264	1,453	1,650
EBIT	2,416	3,651	6,379	5,629	7,104
Interest paid	307	641	1,144	1,515	1,350
Other income	230	430	885	600	650
Pre-tax profit	2,339	3,440	6,120	4,714	6,404
Tax	(171)	191	1,517	1,226	1,665
Effective tax rate (%)	(7.3)	5.6	24.8	26.0	26.0
Minority Interest	-	-	-	-	-
Net profit	2,511	3,249	4,603	3,488	4,739
Exceptional items	-	-	-	-	-
Adjusted net profit	2,511	3,249	4,603	3,488	4,739
growth (%)	19.7	29.4	41.7	(24.2)	35.9
EPS	9.8	12.7	17.9	13.6	18.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

YE March	FY18	FY19	FY20	FY21E	FY22E
Adj EPS (Rs)	9.8	12.7	17.9	13.6	18.5
Adj EPS growth (%)	19.7	29.4	41.7	(24.2)	35.9
EBITDA margin (%)	17.2	14.8	15.7	13.8	14.5
Pre-tax margin (%)	12.6	11.1	12.5	9.2	10.6
ROE (%)	14.9	16.6	19.7	12.8	15.2
ROCE (%)	14.0	15.7	17.6	12.8	14.4
Turnover & Leverage ratios					
Asset turnover (x)	0.7	1.0	1.2	1.1	1.2
Leverage factor (x)	1.5	1.8	1.7	1.7	1.6
Net margin (%)	13.5	10.5	9.4	6.8	7.8
Net Debt/Equity (x)	0.0	0.0	0.0	0.02	-0.02
Working Capital Ratio					
Inventory days	35	48	20	24	27
Receivable days	136	73	60	65	70
Payable days	91	56	35	32	33
Valuation (x)					
PER (x)	18.0	12.1	5.2	10.2	7.5
Price/Book value (x)	2.5	1.9	0.9	1.2	1.1
PCE (x)	13.7	9.4	4.1	7.2	5.6
EV/Net sales (x)	2.4	1.3	0.4	0.6	0.5
EV/EBITDA (x)	14.2	8.7	2.6	4.4	3.6
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance Sheet

Y/E (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Equity Capital	513	513	513	513	513
Reserves and Surplus	17,554	20,639	24,953	28,313	32,923
Networth	18,067	21,152	25,466	28,826	33,436
Total Debt	1,697	2,837	2,238	1,738	1,238
Deferred tax liability	-	-	-	-	-
Other noncurrent liabilities	1,699	3,791	6,532	6,969	7,450
Trade Payables	4,628	4,737	4,675	4,466	5,513
Other Current Liabilities	1,773	4,638	5,191	5,688	6,631
Total Current Liabilities	6,402	9,376	9,866	10,154	12,144
Total liabilities	27,864	37,155	44,103	47,687	54,268
NB	4,064	6,155	5,879	5,426	4,776
CWIP	111	62	1	-	-
Investment	4,948	5,730	7,355	9,855	12,355
Other non-current assets	2,986	1,766	1,850	2,035	2,239
Inventories	1,758	4,036	2,673	3,347	4,485
Sundry Debtors	6,900	6,154	8,035	9,128	11,599
Cash and Bank	1,061	2,519	6,822	6,107	5,858
Other current assets	2,451	4,600	4,580	4,804	5,669
Total Current Assets	14,057	19,761	24,299	25,653	30,181
Total Assets	27,864	37,155	44,103	47,687	54,268

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow statement

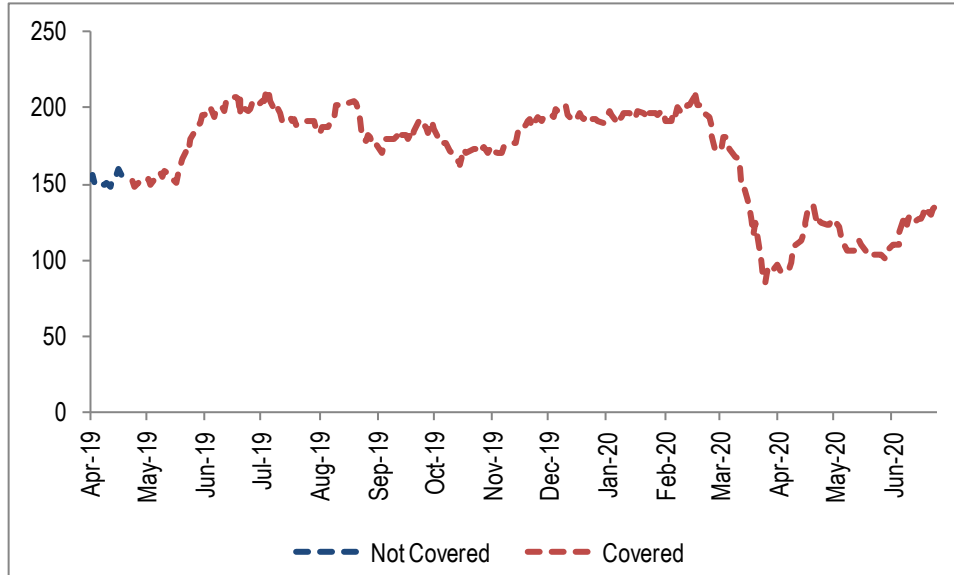
YE March, Rsmn	FY18	FY19	FY20	FY21E	FY22E
EBIT	2,647	4,081	7,264	6,229	7,754
Add: Depreciation & Impairment	772	922	1,264	1,453	1,650
Cash flow from operations b4 WC	3,275	5,004	8,528	7,682	9,404
Net change in Working capital	(51)	943	2,019	(1,345)	(2,306)
Tax paid	171	(191)	(1,517)	(1,226)	(1,665)
Net cash from operations	3,395	5,755	9,029	5,111	5,433
Capital expenditure	(1,390)	(2,964)	(928)	(999)	(1,000)
Sale of investments	(363)	(1,278)	(3,122)	(2,500)	(2,500)
Net cash from investing	(1,986)	(3,021)	(4,135)	(3,684)	(3,704)
Issue of shares	-	-	-	-	-
Increase in debt	79	1,181	383	(500)	(500)
Dividends paid incl. tax	(128)	(128)	(128)	(128)	(128)
Net cash from financing	(391)	(1,277)	(591)	(2,143)	(1,978)
Net Cash	1,017	1,458	4,304	(716)	(249)
Opening Cash	44	1,061	2,519	6,822	6,107
Closing Cash	1,061	2,519	6,822	6,107	5,858

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 April 2020	BUY	123	210
27 May 2020	BUY	103	210
29 June 2020	BUY	139	236

Rating track graph



DISCLOSURES

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