



India

REDUCE (previously HOLD)

Consensus ratings*: Buy 18 Hold 1 Sell 0

Current price:	Rs444
Target price:	▲ Rs400
Previous target:	Rs337
Up/downside:	-9.9%
InCred Research / Consensus:	-9.5%
Reuters:	PNCI.NS
Bloomberg:	PNCL IN
Market cap:	US\$1,372m Rs113,980m
Average daily turnover:	US\$3.0m Rs250.9m
Current shares o/s:	256.5m
Free float:	43.9%

*Source: Bloomberg

Key changes in this note

- Reduce our FY24F/25F EBITDA by 9% each.
- Introduce FY26F estimates.
- Roll forward our target price to Mar 2025F.

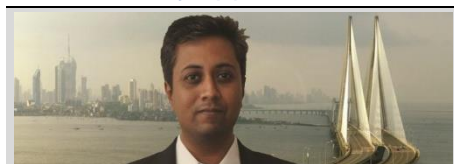


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	26.6	33.4	30.9
Relative (%)	26.3	20.1	9.3

Major shareholders

	% held
Promoter and Promoter group	56.1
HDFC Small Cap Fund	8.7
ICICI Prudential	3.7

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PNC Infratech Ltd

Steady 3Q & slim OB; expensive valuation

- 3QFY24 sales/ EBITDA rose by 11%/ 15% yoy, respectively. Order inflow was muted, and the slim OB-to-sales ratio is a cause of concern.
- We believe the recent asset divestment will provide growth capital.
- Roll forward our target price to Mar 2025F; downgrade our rating to REDUCE (from HOLD earlier) after the 30% rise in CMP in the last one month.

Steady growth in EPC business

3QFY24 EPC sales (Rs18bn) and EBITDA (Rs2.4bn) of PNC Infratech rose by 11%/15% yoy, respectively. While the order book or OB (ex-road segment) was at Rs44bn in 3QFY24, the construction revenue (ex-road segment) was at Rs17.6bn in the trailing 12 months. Thus, the execution pace of these projects is healthy.

Muted new order wins in 3Q – slim order book is an area of concern

The OB-to-sales ratio was at 2.3x in Dec 2023. PNC had won four HAM projects in 2HFY23 (Rs44bn construction value), which were not included in the OB earlier but have been included now. New order wins in 3QFY24 were muted at Rs13bn. We estimate that 55% of the OB of Rs174bn comprise HAM projects, and thus PNC Infratech must fund 33% of its OB (Rs11-12bn equity, remaining via debt). We believe that new orders for the sector are likely to be weak in 2HFY24F-1HFY25F. As a result, we expect its OB-to-sales ratio to decline to 2x in Mar 2024F and lead to just a 5% yoy sales growth in FY25F (vs. management's guidance of a 10% growth). Our EBITDA margin estimate (13.3% for FY25-26F) is in line with management's guidance.

Asset divestment to provide growth capital

In Jan 2024, PNC Infratech executed definitive pacts with Highways Infra Trust (HIT: an InvIT), to divest 12 road assets (11 HAM; 1 state highway BOT toll asset) of ~3,800 lane km in Uttar Pradesh, Madhya Pradesh, Karnataka and Rajasthan. The transaction EV is Rs90bn, and equity value is Rs29bn on an invested equity of Rs17bn. The transaction is subject to regulatory and other conditions. PNC Infratech has 27 road HAM and BOT projects in different stages of construction/operations, including 12 assets in this transaction. The agreement is at attractive valuation of ~1.7x P/BV. Timeline of the deal is important – clarity awaited.

Roll forward TP to Mar 2025F; downgrade to REDUCE (HOLD earlier)

We reduce our FY24F/25F EBITDA estimates by 9% each and introduce FY26 estimates. We roll forward our valuation to Mar 2025F, valuing the EPC business at 6.5x EV/EBITDA FY26F, at a premium to its last six-year median (5.7x). We believe the premium is justified considering the relatively lean balance sheet post completion of the deal with HIT. However, the stock trades at an expensive valuation of 8.2x FY25F EV/EBITDA. We value the divested assets at transaction value and operational BOT assets using the discounted cash flow (DCF) method. We raised our target price to Rs400 (Rs337 earlier) but downgraded the stock to REDUCE (HOLD earlier) after a 30% rise in its market price in the last one month. Upside risk: Strong order wins in FY25F (vs. our estimate of Rs100bn).

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	72,080	79,561	87,042	90,856	97,858
Operating EBITDA (Rsm)	15,345	16,000	18,074	18,463	18,783
Net Profit (Rsm)	5,804	6,585	7,689	5,604	6,164
Core EPS (Rs)	22.7	25.7	30.0	21.8	24.0
Core EPS Growth	17.2%	13.1%	16.8%	(27.1%)	10.0%
FD Core P/E (x)	19.57	17.31	14.82	20.34	18.49
DPS (Rs)	0.5	0.5	0.6	0.6	0.7
Dividend Yield	0.14%	0.14%	0.15%	0.17%	0.19%
EV/EBITDA (x)	9.90	10.53	12.65	14.01	13.33
P/FCFE (x)	(62.04)	(204.91)	(67.25)	(47.17)	17.99
Net Gearing	116.3%	133.9%	233.9%	265.0%	225.9%
P/BV (x)	3.14	2.66	2.26	2.04	1.85
ROE	17.4%	16.6%	16.5%	10.6%	10.5%
% Change In Core EPS Estimates			61.51%	(1.60%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Steady 3Q & slim OB; expensive valuation

Figure 1: Standalone income statement

(Rs. m)	Quarter ended				
	Dec-23	Dec-22	% Chg	Sep-23	% Chg
Net Sales	18,027	16,270	11	16,930	6
EBITDA	2,395	2,081	15	2,276	5
Other income	42	98	-57	57	-26
Depreciation	261	278	-6	257	2
Interest	172	162	6	187	-8
Tax	493	445	11	492	0
Adjusted PAT	1,511	1,294	17	1,398	8
Extraordinary income	0	0	-	0	
Reported PAT	1,511	1,294	17	1,398	8
EBITDA margin (%)	13.3	12.8		13.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Key metrics

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Order book (Rs bn)	178	157	149	134	174
Order book/ TTM sales (x)	2.6	2.2	2.1	1.8	2.3
Order book from Roads %	58	63	72	62	75
NWC / Sales (days)	82	87	83	79	73

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Key financials of EPC segment

(Rs bn)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Closing Order book	116	147	157	150	170	181
Order Flow	79	93	80	71	100	100
Sales	49	63	70	77	81	89
yoy growth %	3	28	11	10	5	10
OB/ TTM Sales (x)	2.4	2.3	2.2	2.0	2.1	2.0
% of OB from HAM	66	27	59			
EBITDA margin %	13.7	12.5	13.1	13.3	13.3	13.3

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised earnings estimates

(Rs m)	FY24F		FY25F		FY26F
	Old	New	Old	New	
Sales	90,660	87,042	94,579	90,856	97,858
% change		-4		-4	
EBITDA	19,855	18,074	20,259	18,463	18,783
% change		-9		-9	
PAT	4,761	7,689	5,695	5,604	6,164
% change		62		-2	

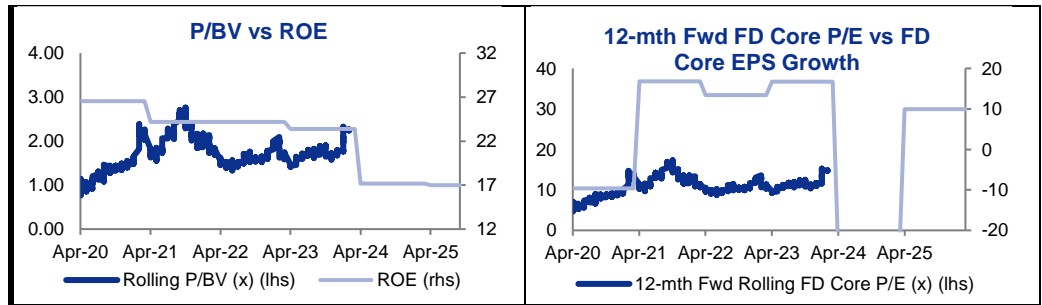
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: PNC Infratech's six-year median EV/EBITDA of 5.7x



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	72,080	79,561	87,042	90,856	97,858
Gross Profit	40,153	29,179	56,578	59,056	63,608
Operating EBITDA	15,345	16,000	18,074	18,463	18,783
Depreciation And Amortisation	(3,902)	(2,533)	(1,800)	(4,874)	(4,537)
Operating EBIT	11,443	13,467	16,274	13,589	14,247
Financial Income/(Expense)	(4,253)	(4,699)	(6,478)	(5,680)	(5,464)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	890	806	1,100	1,200	1,200
Profit Before Tax (pre-EI)	8,079	9,575	10,896	9,109	9,982
Exceptional Items					
Pre-tax Profit	8,079	9,575	10,896	9,109	9,982
Taxation	(2,257)	(2,990)	(3,207)	(3,505)	(3,818)
Exceptional Income - post-tax	(19)				
Profit After Tax	5,804	6,585	7,689	5,604	6,164
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,804	6,585	7,689	5,604	6,164
Recurring Net Profit	5,823	6,585	7,689	5,604	6,164
Fully Diluted Recurring Net Profit	5,823	6,585	7,689	5,604	6,164

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	15,345	16,000	18,074	18,463	18,783
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(18,566)	(25,333)	(68,586)	(36,440)	1,160
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(4,253)	(4,699)	(6,478)	(5,680)	(5,464)
Tax Paid	(2,257)	(2,990)	(3,207)	(3,505)	(3,818)
Cashflow From Operations	(9,731)	(17,022)	(60,197)	(27,162)	10,660
Capex	(277)	(512)	(886)	(3,852)	(3,287)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	1,549	1,122			
Other Investing Cashflow	871	806	1,100	1,200	1,200
Cash Flow From Investing	2,143	1,417	214	(2,652)	(2,087)
Debt Raised/(repaid)	5,751	15,049	58,288	27,398	(2,237)
Proceeds From Issue Of Shares	105	145			
Shares Repurchased					
Dividends Paid	(160)	(160)	(176)	(194)	(213)
Preferred Dividends					
Other Financing Cashflow	(80)	162			
Cash Flow From Financing	5,616	15,196	58,112	27,204	(2,450)
Total Cash Generated	(1,972)	(409)	(1,871)	(2,610)	6,123
Free Cashflow To Equity	(1,837)	(556)	(1,695)	(2,416)	6,336
Free Cashflow To Firm	(3,335)	(10,906)	(53,505)	(24,134)	14,037

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	7,473	7,063	5,192	2,582	8,705
Total Debtors	58,501	79,223	173,654	210,017	208,696
Inventories	4,808	7,644	7,696	8,081	8,889
Total Other Current Assets	16,553	16,368	18,289	18,712	19,601
Total Current Assets	87,335	110,299	204,831	239,392	245,891
Fixed Assets	14,816	12,907	11,993	10,971	9,722
Total Investments	4,237	3,327	3,115	3,115	3,115
Intangible Assets					
Total Other Non-Current Assets	60				
Total Non-current Assets	19,114	16,234	15,108	14,086	12,837
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	20,516	18,556	46,374	47,105	48,640
Total Current Liabilities	20,516	18,556	46,374	47,105	48,640
Total Long-term Debt	49,654	64,703	122,991	150,389	148,152
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	49,654	64,703	122,991	150,389	148,152
Total Provisions		212	212	212	212
Total Liabilities	70,170	83,471	169,576	197,706	197,004
Shareholders Equity	36,281	42,850	50,363	55,773	61,723
Minority Interests	(2)	210			
Total Equity	36,279	43,060	50,363	55,773	61,723

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	24.5%	10.4%	9.4%	4.4%	7.7%
Operating EBITDA Growth	7.9%	4.3%	13.0%	2.2%	1.7%
Operating EBITDA Margin	21.3%	20.1%	20.8%	20.3%	19.2%
Net Cash Per Share (Rs)	(164.42)	(224.68)	(459.18)	(576.16)	(543.57)
BVPS (Rs)	141.42	167.03	196.32	217.41	240.60
Gross Interest Cover	2.69	2.87	2.51	2.39	2.61
Effective Tax Rate	27.9%	31.2%	29.4%	38.5%	38.3%
Net Dividend Payout Ratio	2.0%	1.7%	1.6%	2.1%	2.1%
Accounts Receivables Days	260.43	315.92	530.20	770.67	780.88
Inventory Days	47.69	45.10	91.90	90.55	90.42
Accounts Payables Days					
ROIC (%)	19.3%	18.1%	16.7%	8.2%	7.1%
ROCE (%)	14.3%	13.9%	11.6%	7.2%	6.8%
Return On Average Assets	12.2%	12.3%	10.0%	6.2%	6.0%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Outstanding Orderbook	146,630	156,760	150,348	169,547	180,667
Orderbook Replenishment	93,205	80,368	70,540	100,000	100,000

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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