



India

HOLD (previously REDUCE)

Consensus ratings*: Buy 12 Hold 5 Sell 2

Current price: Rs299
 Target price: ▼ Rs309
 Previous target: Rs400
 Up/downside: 3.3%
 InCred Research / Consensus: -30.9%

Reuters:
 Bloomberg: PNCL IN
 Market cap: US\$1,057m
 Rs76,718m
 Average daily turnover: US\$9.9m
 Rs717.2m
 Current shares o/s: 256.5m
 Free float: 43.9%
 *Source: Bloomberg

Key changes in this note

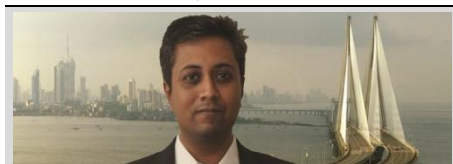
- Reduce our FY24F/25F EBITDA by 22%/20%, respectively.
- Upgrade the rating to HOLD (REDUCE earlier) with a lower target price of Rs309.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(35.8)	(35.0)	(5.4)
Relative (%)	(32.3)	(33.7)	(19.9)

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**Dismal results – awaiting resolution with MORTH**

- 2Q EBITDA fell 41% yoy. PNC gave guidance of 15-20% yoy FY25F sales dip.
- Reasonable 3.2x order book (OB)/ sales likely to deplete in the next year.
- After a 34% decline in the stock price, we upgrade our rating on PNC Infratech to HOLD (REDUCE earlier) with a lower target price of Rs309 (Rs400 earlier).

Very weak results and guidance

EPC sales (Rs11.5bn) & EBITDA (Rs1.3bn) of PNC Infratech in 2QFY25 declined by 32%/41% yoy, respectively. The company stated that weak execution was due to extended monsoons and a delay in starting some projects. Sales in 1HFY25 declined by 30% yoy. PNC Infratech expects 2HFY25F to be weak and gave guidance of a 15-20% yoy decline in FY25F sales (lower than the guidance given in 1QFY25 of 0-10% yoy dip). PNC Infratech gave guidance of 12-12.5% EBITDA margin (vs. 12.1%/ 11.6% in 1Q/ 2QFY25, respectively), and lower than in FY24 (13.2%).

Reasonable 3.2x order book/ sales likely to deplete next year

Order book (OB: including projects where the appointed date is awaited) rose from Rs141bn in Jun 2024 to Rs199bn in Sep 2024. In 1HFY25, PNC Infratech won orders worth Rs66.3bn (two EPC projects from MSRDC worth Rs46.3bn and one EPC project from CIDCO worth Rs20bn). Despite the disqualification of PNC Infratech by the Ministry of Road Transport and Highways (MoRTH) in Oct 2024 from participating in any tender of MORTH/ NHAI/ NHIDCL for one year, PNC Infratech gave guidance of Rs150bn of orders in FY25F – much above the average in FY20-24 (Rs67bn) and our estimate (Rs68bn). PNC Infratech has equity requirement of Rs9bn in HAM projects over the next two-to-three years. We factor in Rs68bn/ Rs30bn of orders in FY25F/26F, respectively.

Barred from bidding for MORTH projects for a period of one year

In Oct 2024, MoRTH disqualified PNC Infratech from participating in any tender of MORTH/ NHAI/ NHIDCL for one year. This is a significant negative as road projects account for ~80% of the OB. The ban on new orders from MORTH for one year is likely to impact FY26F sales. While we were expecting Rs89bn of EPC sales in FY26F, we feel the stoppage of orders from MORTH for a year (and start thereafter) could lead to 25-30% lower sales in FY26F.

Upgrade to HOLD (REDUCE earlier) with a lower target price of Rs309

We reduce our FY25F/26F EBITDA by 22%/20%, respectively. We value the EPC business at 5x FY26F EV/EBITDA. Our target multiple is lower than our earlier target multiple (6.5x) and six-year median (5.9x). We believe the discount is justified considering the ban from bidding for a year imposed by MORTH. The stock trades at 5.6x FY25F EV/EBITDA. We value the divested assets at transaction value and operational BOT assets using the discounted cash flow (DCF) method. We reduce our target price to Rs309 (Rs400 earlier) but upgrade the stock's rating to HOLD (REDUCE earlier) after a sharp 34% decline in its market price in the last one month. Earlier-than-expected revoking of the ban from bidding for projects by MORTH is an upside risk and extension of the ban is a downside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	72,080	79,561	83,531	68,794	73,649
Operating EBITDA (Rsm)	15,345	16,000	17,077	14,482	14,944
Net Profit (Rsm)	5,804	6,585	9,094	3,377	4,042
Core EPS (Rs)	22.7	25.7	23.9	13.2	15.8
Core EPS Growth	17.2%	13.1%	(7.0%)	(44.9%)	19.7%
FD Core P/E (x)	13.18	11.65	12.52	22.72	18.98
DPS (Rs)	0.5	0.5	0.5	0.6	0.6
Dividend Yield	0.21%	0.21%	0.21%	0.23%	0.25%
EV/EBITDA (x)	7.47	8.20	8.19	15.49	14.57
P/FCFE (x)	(41.76)	(137.92)	10.92	(7.94)	16.58
Net Gearing	116.3%	133.9%	131.5%	277.5%	248.1%
P/BV (x)	2.11	1.79	1.48	1.39	1.30
ROE	17.4%	16.6%	12.9%	6.3%	7.1%
% Change In Core EPS Estimates			(20.33%)	(39.73%)	(34.42%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Dismal results – awaiting resolution with MORTH

Figure 1: Standalone income statement

(Rs. m)	Quarter ended				
	Sep-24	Sep-23	% Chg	Jun-24	% Chg
Net Sales	11,491	16,930	-32	13,092	-12
EBITDA	1,336	2,276	-41	1,583	-16
Other income	129	57	125	86	50
Depreciation	226	257	-12	225	0
Interest	152	187	-19	129	18
PBT	1,088	1,890	-42	1,316	-17
Tax	279	492	-43	369	-24
Adjusted PAT	809	1,398	-42	947	-15
Extraordinary income	0	0	-	3,264	-
Reported PAT	809	1,398	-42	4,211	-81
EBITDA margin (%)	11.6	13.4		12.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Key metrics

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Order book (Rs bn)	134	174	154	141	199
Order book/ TTM sales (x)	1.8	2.3	2.1	2.1	3.2
Order book from Roads & Canal %	62	75	76	82	84
NWC / Sales (days)	79	73	102	121	144

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Key financials of EPC segment

(Rs bn)	FY21	FY22	FY23	FY24	FY25F	FY26F
Closing Order book	116.5	146.6	156.8	154.0	163.1	127.8
Order Flow	79.4	93.2	80.4	71.3	68.4	30.0
Sales	49.3	63.1	70.2	74.0	59.3	65.3
yoy growth %	3.3	28.0	11.4	5.4	-19.9	10.0
OB/ TTM Sales (x)	2.4	2.3	2.2	2.1	2.7	2.0
EBITDA margin %	13.7	12.5	13.1	13.2	12.3	13.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised earnings estimates

(Rs m)	FY25F		FY26F	
	Old	New	Old	New
Sales	90,856	68,794	97,868	73,649
% change		-24		-25
EBITDA	18,463	14,482	18,783	14,944
% change		-22		-20
PAT	5,604	3,377	6,164	4,042
% change		-40		-34

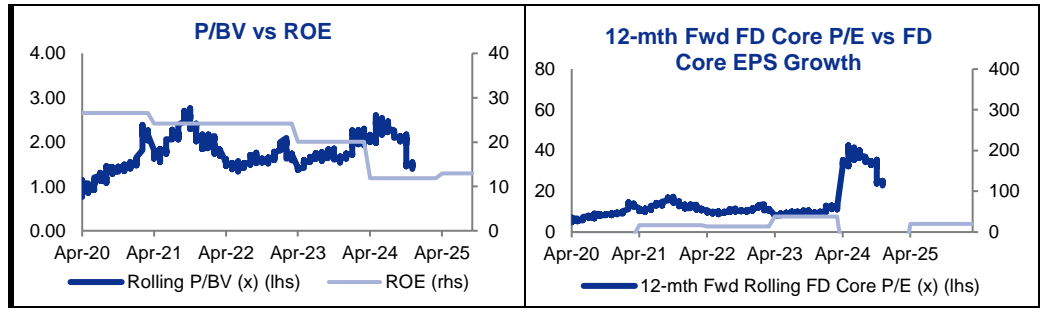
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: PNC Infratech trades at 4.8x FY26F EV/EBITDA vs. its six-year median of 5.9x



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	83,531	68,794	73,649
Gross Profit	40,153	29,179	27,538	44,716	47,872
Operating EBITDA	15,345	16,000	17,077	14,482	14,944
Depreciation And Amortisation	(3,902)	(2,533)	(1,768)	(2,497)	(2,160)
Operating EBIT	11,443	13,467	15,309	11,985	12,784
Financial Income/(Expense)	(4,253)	(4,699)	(6,605)	(6,437)	(6,221)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	890	806	815	800	800
Profit Before Tax (pre-EI)	8,079	9,575	9,519	6,348	7,363
Exceptional Items					
Pre-tax Profit	8,079	9,575	9,519	6,348	7,363
Taxation	(2,257)	(2,990)	(3,393)	(2,971)	(3,321)
Exceptional Income - post-tax	(19)		2,968		
Profit After Tax	5,804	6,585	9,094	3,377	4,042
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,804	6,585	9,094	3,377	4,042
Recurring Net Profit	5,823	6,585	6,126	3,377	4,042
Fully Diluted Recurring Net Profit	5,823	6,585	6,126	3,377	4,042

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	15,345	16,000	17,077	14,482	14,944
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(18,566)	(25,333)	(18,666)	(88,717)	1,649
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(4,253)	(4,699)	(6,605)	(6,437)	(6,221)
Tax Paid	(2,257)	(2,990)	(3,393)	(2,971)	(3,321)
Cashflow From Operations	(9,731)	(17,022)	(11,587)	(83,643)	7,050
Capex	(277)	(512)	(453)	(1,552)	(987)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	1,549	1,122	(1,999)		
Other Investing Cashflow	871	806	3,783	800	800
Cash Flow From Investing	2,143	1,417	1,331	(752)	(187)
Debt Raised/(repaid)	5,751	15,049	17,280	74,728	(2,237)
Proceeds From Issue Of Shares	105	145	64		
Shares Repurchased					
Dividends Paid	(160)	(160)	(160)	(176)	(194)
Preferred Dividends					
Other Financing Cashflow	(80)	162	(205)		
Cash Flow From Financing	5,616	15,196	16,979	74,552	(2,431)
Total Cash Generated	(1,972)	(409)	6,724	(9,843)	4,432
Free Cashflow To Equity	(1,837)	(556)	7,025	(9,667)	4,626
Free Cashflow To Firm	(3,335)	(10,906)	(3,650)	(77,958)	13,084

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	13,787	3,944	8,376
Total Debtors	58,501	79,223	98,632	184,708	183,356
Inventories	4,808	7,644	7,650	5,932	6,525
Total Other Current Assets	16,553	16,368	19,327	17,683	18,276
Total Current Assets	87,335	110,299	139,396	212,267	216,534
Fixed Assets	14,816	12,907	11,592	10,647	9,475
Total Investments	4,237	3,327	5,114	5,114	5,114
Intangible Assets					
Total Other Non-Current Assets	60				
Total Non-current Assets	19,114	16,234	16,706	15,761	14,589
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	20,516	18,556	22,264	16,261	17,744
Total Current Liabilities	20,516	18,556	22,264	16,261	17,744
Total Long-term Debt	49,654	64,703	81,983	156,711	154,475
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	49,654	64,703	81,983	156,711	154,475
Total Provisions		212	7	7	7
Total Liabilities	70,170	83,471	104,254	172,979	172,226
Shareholders Equity	36,281	42,850	51,848	55,049	58,897
Minority Interests	(2)	210			
Total Equity	36,279	43,060	51,848	55,049	58,897

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	24.5%	10.4%	5.0%	(17.6%)	7.1%
Operating EBITDA Growth	7.9%	4.3%	6.7%	(15.2%)	3.2%
Operating EBITDA Margin	21.3%	20.1%	20.4%	21.1%	20.3%
Net Cash Per Share (Rs)	(164.42)	(224.68)	(265.83)	(595.49)	(569.50)
BVPS (Rs)	141.42	167.03	202.11	214.58	229.58
Gross Interest Cover	2.69	2.87	2.32	1.86	2.06
Effective Tax Rate	27.9%	31.2%	35.6%	46.8%	45.1%
Net Dividend Payout Ratio	2.0%	1.7%	1.7%	2.8%	2.6%
Accounts Receivables Days	260.43	315.92	388.58	751.66	912.06
Inventory Days	47.69	45.10	49.85	102.95	88.20
Accounts Payables Days					
ROIC (%)	19.3%	18.1%	15.7%	10.4%	6.3%
ROCE (%)	14.3%	13.9%	12.7%	6.9%	6.0%
Return On Average Assets	12.2%	12.3%	11.4%	6.7%	5.9%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Outstanding Orderbook	146,630	156,760	154,000	163,078	127,825
Orderbook Replenishment	93,205	80,368	71,264	68,400	30,000

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.