

India

Neutral (no change)

Highlighted Companies

Dilip Buildcon Ltd

ADD, TP Rs400, Rs220 close

Dilip Buildcon has a strong order book or OB (2.9x TTM sales) and 85% of OB is expected to be under the construction phase in FY24F. The stock trades at an attractive valuation of 4.1x FY23F EV/EBITDA, at a 38% discount to its five-year average.

PNC Infratech Ltd

ADD, TP Rs316, Rs271 close

PNC Infratech has a strong 3.1x OB/ sales. It trades at an attractive valuation (standalone EV/EBITDA of 5.3x FY23F). We value the EPC business at 6x FY24F EV/EBITDA, close to its five-year median (6.1x).

IRB Infrastructure Developers Ltd

ADD, TP Rs293, Rs215 close

Fund-raising has provided growth capital to the company, but at a 72% equity dilution. Recent project win, in our view, provides EPC revenue growth visibility.

Summary Valuation Metrics

P/E (x)	Mar23-F	Mar24-F
Dilip Buildcon Ltd	7.38	6.31
PNC Infratech Ltd	16.58	14.02
IRB Infrastructure Developers Ltd	10.75	6.67
P/BV (x)	Mar23-F	Mar24-F
Dilip Buildcon Ltd	0.97	0.84
PNC Infratech Ltd	1.78	1.59
IRB Infrastructure Developers Ltd	0.93	0.82
Dividend Yield	Mar23-F	Mar24-F
Dilip Buildcon Ltd	0.55%	0.55%
PNC Infratech Ltd	0.28%	0.31%
IRB Infrastructure Developers Ltd	0%	0%

Construction

2QFY23F results preview

- We expect steady engineering, procurement, and construction (EPC) sales in 2QFY23F, driven by robust order book.
- Dilip Buildcon (DBL), PNC Infra (PNC) and NCC trade at an average 22% discount to their five-year average EV/EBITDA, but KNR Constructions (KNR) trades at a 17% premium to its five-year average EV/EBITDA.
- Our preferred picks are IRB Infra, PNC & DBL. During the last three months, CMP of NCC rose by 33%. We believe the near-term upside is limited.

2QFY23F results expectations

Since Mar 2020, order inflow has picked up (Rs1,118bn over FY21-1QFY23), resulting in average OB/sales at 3x (Jun 2022). The companies in our coverage must fund 24% of their latest order book or OB (like Mar 2019). We expect steady EPC sales in 2QFY23F driven by strong order book and a high proportion of projects under construction. For toll-based assets, we forecast a ~5% qoq rise in revenue.

Execution can rerate DBL, PNC, NCC; KNR trades at fair valuation

Dilip Buildcon (DBL), PNC Infra (PNC) and NCC trade at an average 22% discount to their five-year average EV/EBITDA. We believe strong EPC sales growth in FY23F-24F can rerate the valuation multiple. KNR Constructions (KNR) trades at a 17% premium to its five-year average EV/EBITDA. DBL and NCC have the highest target EPC segment enterprise value as a proportion of target equity valuation. Rerating of EV/EBITDA multiple and/or a strong financial performance can have the highest impact on DBL and NCC. Consolidated net debt/market capitalization is high for DBL. Thus, an expansion in the enterprise value or EV of DBL can have a substantial impact on its share price.

Preferred stock picks: IRB Infra, PNC, and DBL

We use EV/EBITDA multiple to value the EPC segment, discounted cash flow for operational road assets and 1x capex for under-construction road assets. Our preferred picks are (a) DBL (TP: Rs400), valuing its EPC business at 5x FY24F EV/EBITDA (25% discount to its five-year median), (b) PNC (TP: Rs316), valuing its EPC business at 6x EV/EBITDA (close to five-year median), and (c) IRB Infra (TP: Rs293), valuing its EPC segment at 4x FY24F EV/EBITDA. During the last three months, CMP of NCC has increased by 33%. We believe the near-term upside is limited. Difficulties in financial closure of new Hybrid Annuity Model (HAM) projects and a slowdown in project execution are key downside risks for the sector.

Analyst(s)



Rajarshi MAITRA

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

Dipen VAKIL

T (91) 22 4161 1551

E dipen.vakil@incredcapital.com

Figure 1: 2QFY23F estimates for companies under our coverage universe

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	13,191	(10)	(12)	6,316	(12)	(9)	475	(13)	-
IRB InvT	2,233	(29)	(23)	1,854	(27)	(24)	704	(3)	(31)
Dilip Buildcon	26,304	22	0	3,157	39	54	749	-	-
PNC Infra	16,676	3	(3)	2,168	(2)	(2)	1,276	(6)	(1)
NCC	26,609	21	(10)	2,794	18	(1)	1,032	41	(14)
KNR Construction	8,311	10	(7)	1,538	(8)	(7)	1,032	(5)	(10)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY23F results preview

Figure 2: 2QFY23F estimates for companies under our coverage

Company	2QFY23F	2QFY22	yoy %	1QFY23	qoq %	Comments
IRB Infra (Consolidated)						
Sales (Rs m)	13,191	14,652	(10.0)	15,066	(12.4)	We estimate 24% yoy decline in EPC sales. We estimate 15% yoy rise in BOT Sales driven by recovery in traffic.
EPC segment Sales (Rs m)	7,917	10,474	(24.4)	10,500	(24.6)	
EBITDA (Rs m)	6,316	7,176	(12.0)	6,926	(8.8)	
EBITDA margin %	47.9	49.0		46.0		
Adj. PAT (Rs m)	475	543	(12.6)	954		
IRB InvIT (Consolidated)						
Sales (Rs m)	2,233	3,137	(28.8)	2,911	(23.3)	We expect 23% qoq decline in sales as 2 projects which contributed 53% to FY22 EBITDA have been handed over to the awarding authority post Mar 2022.
EBITDA (Rs m)	1,854	2,544	(27.1)	2,425	(23.6)	
EBITDA margin %	83.0	81.1		83.3		
Adj. PAT (Rs m)	704	729	(3.4)	1,028	(31.5)	
Dilip Buildcon (Standalone)						
Sales (Rs m)	26,304	21,561	22.0	26,215	0.3	We expect 22% yoy rise in sales and 12% EBITDA margin. This is slightly higher than 7.8% EBITDA margin in 1QFY23 but below historical margins of 16-17%.
EBITDA (Rs m)	3,157	2,277	38.7	2,054	53.7	
EBITDA margin %	12.0	10.6		7.8		
Adj. PAT (Rs m)	749	(213)		28		
PNC Infra (Standalone)						
Sales (Rs m)	16,676	16,150	3.3	17,211	(3.1)	We expect just 3% yoy sales growth and 13% EBITDA margin, similar to historic level.
EBITDA (Rs m)	2,168	2,216	(2.2)	2,208	(1.8)	
EBITDA margin %	13.0	13.7		12.8		
Adj. PAT (Rs m)	1,276	1,354	(5.7)	1,295	(1.5)	
NCC (Standalone)						
Sales (Rs m)	26,609	21,990	21.0	29,586	(10.1)	We expect 21% yoy rise in sales and steady EBITDA margin of 10.5%, similar to historic level.
EBITDA (Rs m)	2,794	2,366	18.1	2,812	(0.7)	
EBITDA margin %	10.5	10.8		9.5		
Adj. PAT (Rs m)	1,032	731	41.2	1,200	(14.0)	
KNR Constructions (Standalone)						
Sales (Rs m)	8,311	7,556	10.0	8,906	(6.7)	We expect 10% yoy sales growth and strong 18.5% EBITDA margin.
EBITDA (Rs m)	1,538	1,675	(8.2)	1,650	(6.8)	
EBITDA margin %	18.5	22.2		18.5		
Adj. PAT (Rs m)	903	952	(5.1)	1,008	(10.4)	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Strong order flow momentum of FY21-22 continues in YTFY23 ▶

After a strong order flow in FY18-19, net order flow plummeted in FY20 to Rs39bn (90% yoy decline) for EPC companies in our coverage, partly due to order cancellations in FY20 for NCC (Rs132bn) and IRB Infra (Rs35bn). Adjusted for cancellations, FY20 order inflow was at Rs211bn (50% yoy decline).

For EPC companies in our coverage, sales grew 36% yoy in FY19 due to strong order book (OB)-to-sales ratio in FY18 (average 3.6x) and healthy order flow in FY19. In FY20, sales declined 5% yoy as the order flow dried up. OB-to-sales ratio declined to just 2.2x in FY20. Since Mar 2020, order flow has picked up (Rs1,118bn in FY21-YTFY23). Thus, average OB-to-sales ratio for companies under our coverage was 3x in 1QFY23. This augurs well for sales growth in FY23F-24F.

Figure 3: Order flow over FY19 to YTFY23 for EPC companies in our coverage

(Rs bn)	Order inflow				
	FY19	FY20	FY21	FY22	YTD FY23
Dilip Buildcon	64	69	175	72	43
NCC	207	(64)	186	99	44
PNC Infra	80	12	79	92	74
IRB Infra	6	(12)	68	73	-
KNR Constructions	38	35	48	52	12
Total	396	39	557	388	173

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: OB-to-sales and sales growth of EPC companies in our coverage

	Order book/ Sales (x)						yoy Sales growth (%)				
	FY18	FY19	FY20	FY21	FY22	Latest	FY19	FY20	FY21	FY22	1QFY23
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.9	18	(2)	3	(2)	22
NCC	4.3	3.4	3.2	5.2	4.0	3.7	60	(32)	(12)	39	56
PNC Infra	4.1	4.0	1.8	2.4	2.4	3.1	71	55	3	26	38
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.6	19	11	(25)	13	(17)
KNR Constructions	1.2	1.9	2.4	2.6	2.8	3.0	11	5	20	22	9
Total	3.5	2.9	2.2	3.3	2.9	3.0	36	(5)	(5)	18	22

SOURCE: INCRED RESEARCH, COMPANY REPORTS

24% of latest OB has to be funded by private road developers, similar to FY19 (24%) ▶

Around 20% of latest OB of companies in our coverage comprise hybrid annuity model (HAM) projects. The concessionaire bears 60% of the project cost of HAM projects and the project-awarding authority bears the remaining 40%.

12% of latest OBs comprise build-operate-transfer (BOT) projects, which the concessionaire has to fund entirely. As a result, the companies in our coverage have to fund 24% of latest OB.

Figure 5: Percentage of OBs to be funded by companies in our coverage

(Rs bn)	Order book FY19		Order book Latest	
	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	273	25
NCC	412	-	406	-
PNC Infra	122	34	204	34
IRB Infra	111	85	95	97
KNR Constructions	40	40	94	29
Total	897	24	1,072	24

SOURCE: INCRED RESEARCH, COMPANY REPORTS

FY23F EV/EBITDA of the EPC segment is at a discount to historical level, except for KNR Constructions ▶

DBL, PNC and NCC trade at an average 22%/33% discount to their five-year/ Mar 2017-19 average EV/EBITDA, respectively. We believe strong EPC sales growth in FY23F-24F can rerate their valuation multiple close to historical level. KNR Constructions trades at 17%/10% premium to its five-year/ Mar 2017-19 average EV/EBITDA, respectively.

Figure 6: Valuations of main third-party construction companies

	EV/ EBITDA (x) for EPC segment			Premium (%) of current FY23F multiple vs.	
	5-year average	Mar 17-19	Current FY23F	5-year average	Mar 17-19
Dilip Buildcon	6.6	7.6	4.1	(38)	(46)
NCC	6.5	6.7	5.6	(14)	(16)
PNC Infra	6.1	8.2	5.3	(13)	(35)
KNR Constructions	6.4	6.8	7.5	17	10
Average	6.4	7.3	5.6	(12)	(23)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.