

India

**Neutral** (no change)

**Highlighted Companies**

**Dilip Buildcon Ltd**

**ADD, TP Rs400, Rs184 close**

DBL has a strong order book or OB (2.7x TTM sales). DBL trades at an attractive valuation of 3.7x FY24F EV/EBITDA, at a 44% discount on its five-year average.

**IRB Infrastructure Developers Ltd**

**ADD, TP Rs29, Rs26 close**

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

**Summary Valuation Metrics**

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Dilip Buildcon Ltd	-5.44	6.18	5.29
IRB Infrastructure Developers Ltd	34.23	17.84	10.02
P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Dilip Buildcon Ltd	0.93	0.81	0.71
IRB Infrastructure Developers Ltd	1.24	1.16	1.04
Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Dilip Buildcon Ltd	0.65%	0.65%	0.65%
IRB Infrastructure Developers Ltd	0%	0%	0%

# Construction

## 4QFY23 results preview

- We expect steady engineering, procurement, and construction (EPC) sales in 4QFY23F, driven by a robust order book.
- Our preferred stock picks are IRB Infra, PNC Infra and Dilip Buildcon (DBL).

### 4QFY23F results expectations

Since Mar 2020, order inflow has picked up (Rs1,304bn over FY21-3QFY23), resulting in average OB/sales at 2.8x (Dec 2022). The companies in our coverage must fund 21% of their latest OB (like in Mar 2019). We expect steady EPC sales in 4QFY23F driven by a strong order book and a high proportion of projects under construction. For toll-based assets, we forecast a ~5% qoq rise in revenue.

### Our preferred picks are IRB Infra, PNC Infra and Dilip Buildcon

Dilip Buildcon (DBL) and PNC Infra are trading at 44%/15% discount to their respective five-year average EV/EBITDA. We believe strong EPC sales growth in FY23F-24F can lead to a significant upside in these two stocks. Both DBL and PNC have robust order book / sales ratio at 2.7x and 2.6x, respectively. Our other preferred stock is IRB Infra – post raising of equity, the company has a well-capitalized balance sheet. We believe that NCC and KNR are trading at fair valuations and the near-term upside is limited.

**Analyst(s)**



**Rajarshi MAITRA**

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

**Parth THAKKAR**

T (91) 22 4161 0000

E parth.thakkar@incredcapital.com

**Figure 1: 4QFY23F estimates for companies under our coverage**

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	16,884	18	12	7,882	(2)	6	1,709	(3)	20
IRB InvT	2,952	(23)	20	2,067	(37)	22	954	(9)	(5)
Dilip Buildcon	26,566	6	12	2,922	23	17	542	1,715	65
PNC Infra	20,508	12	26	2,666	15	28	1,721	18	33
NCC	35,779	14	8	3,578	34	3	1,663	53	11
KNR Construction	10,579	5	27	2,010	(2)	29	1,663	18	40

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 4QFY23 results preview

Figure 2: 4QFY23F estimates for companies under our coverage

Company	4QFY23F	4QFY22	yoy %	3QFY23	qoq %	Comments
<b>IRB Infra (Consolidated)</b>						
Sales (Rs m)	16,884	14,336	17.8	15,141	11.5	We estimate 12% yoy rise in EPC sales. We estimate 10% yoy rise in BOT Sales driven by traffic.
EPC segment Sales (Rs m)	11,273	10,027	12.4	10,165	10.9	
BOT segment Sales (Rs m)	5,611	5,101	10.0	5,537	1.3	
EBITDA (Rs m)	7,882	8,016	(1.7)	7,444	5.9	
EBITDA margin %	46.7	55.9		49.2		
Adj. PAT (Rs m)	1,709	1,760	(2.9)	1,419	20.4	
<b>IRB InvIT (Consolidated)</b>						
Sales (Rs m)	2,952	3,851	(23.3)	2,470	19.5	We expect 23% yoy 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)	2,067	3,292	(37.2)	1,697	21.8	
EBITDA margin %	70.0	85.5		68.7		
Adj. PAT (Rs m)	954	1,045	(8.7)	1,004	(5.0)	
<b>Dilip Buildcon (Standalone)</b>						
Sales (Rs m)	26,566	25,062	6.0	23,788	11.7	We expect 6% yoy rise in sales and 11% EBITDA margin. This is similar to the 10.5% EBITDA margin in 3QFY23 but below historical margins of 16-17%.
EBITDA (Rs m)	2,922	2,368	23.4	2,497	17.0	
EBITDA margin %	11.0	9.5		10.5		
Adj. PAT (Rs m)	542	30		329	64.7	
<b>PNC Infra (Standalone)</b>						
Sales (Rs m)	20,508	18,346	11.8	16,270	26.1	We expect just 12% yoy sales growth and 13% EBITDA margin, similar to historic level.
EBITDA (Rs m)	2,666	2,323	14.7	2,081	28.1	
EBITDA margin %	13.0	12.7		12.8		
Adj. PAT (Rs m)	1,721	1,459	18.0	1,294	33.1	
<b>NCC (Standalone)</b>						
Sales (Rs m)	35,779	31,343	14.2	33,127	8.0	We expect 14% yoy rise in sales and steady EBITDA margin of 10%, similar to historic level.
EBITDA (Rs m)	3,578	2,669	34.0	3,488	2.6	
EBITDA margin %	10.0	8.5		10.5		
Adj. PAT (Rs m)	1,663	1,087	53.1	1,499	11.0	
<b>KNR Constructions (Standalone)</b>						
Sales (Rs m)	10,579	10,075	5.0	8,302	27.4	We expect 5% yoy sales growth considering the relatively thin order book cover (2.3x) and strong 19% EBITDA margin.
EBITDA (Rs m)	2,010	2,048	(1.8)	1,561	28.8	
EBITDA margin %	19.0	20.3		18.8		
Adj. PAT (Rs m)	1,202	1,020	17.9	856	40.5	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

### Strong order flow of FY21-22 continued in YTD FY23 ▶

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 stood 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 (Rs1,304bn in FY21-YTD FY23). Thus, average OB-to-sales ratio for companies under our coverage was 2.8x (latest). This augurs well for sales growth in FY24F.

Figure 3: Order inflow over FY19 to YTD FY23 for EPC companies in our coverage

(Rs bn)	Order inflow				
	FY19	FY20	FY21	FY22	YTD FY23
Dilip Buildcon	64	69	175	72	82
NCC	207	(64)	186	99	121
PNC Infra	80	12	79	92	81
IRB Infra	6	(12)	68	73	60
KNR Constructions	38	35	48	52	16
<b>Total</b>	<b>396</b>	<b>39</b>	<b>557</b>	<b>388</b>	<b>360</b>

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	9MFY23
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.7	18	(2)	3	(2)	12
NCC	4.3	3.4	3.2	5.2	4.0	3.4	60	(32)	(12)	39	36
PNC Infra	4.1	4.0	1.8	2.4	2.4	2.6	71	55	3	26	12
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.1	19	11	(25)	13	(9)
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.3	11	5	20	22	12
<b>Total</b>	<b>3.5</b>	<b>2.9</b>	<b>2.2</b>	<b>3.3</b>	<b>2.9</b>	<b>2.8</b>	<b>36</b>	<b>(5)</b>	<b>(5)</b>	<b>18</b>	<b>17</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 21% 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 21% 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	265	23
NCC	412	-	419	-
PNC Infra	122	34	178	31
IRB Infra	111	85	79	97
KNR Constructions	40	40	81	29
<b>Total</b>	<b>897</b>	<b>24</b>	<b>1,022</b>	<b>21</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Divergent FY24F EV/EBITDA valuations – stock picking is key ▶

NCC is trading close to its five-year average EV/EBITDA. KNR Constructions is trading at a 20% premium to its five-year EV/EBITDA. We believe the near-term upsides in these two stocks are limited.

PNC and DBL are trading at 15%/44% discount to their five-year average EV/EBITDA, respectively. We believe strong EPC sales growth in FY23F-24F can rerate the valuation multiples close to historical levels.

**Figure 6: Valuations of main third-party construction companies**

	EV/ EBITDA (x) for EPC segment			Premium (%) of current FY24F multiple vs.	
	5-year average	Mar 17-19	Current FY24F	5-year average	Mar 17-19
Dilip Buildcon	6.6	7.6	3.7	(44)	(51)
NCC	6.5	6.7	6.4	(2)	(4)
PNC Infra	6.1	8.2	5.2	(15)	(37)
KNR Constructions	6.4	6.8	7.7	20	13
<b>Average</b>	<b>6.4</b>	<b>7.3</b>	<b>5.8</b>	<b>(10)</b>	<b>(22)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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