

India

Neutral (no change)

Highlighted Companies

Dilip Buildcon Ltd

ADD, TP Rs350, Rs242 close

An uptick in the EBITDA margin is key for a rerating. We believe the stock trades at a trough valuation (standalone 3.6x FY24F EV/EBITDA vs. five-year median of 5.9x).

KNR Constructions Ltd

REDUCE, TP Rs235, Rs247 close

We believe the stock trades at an expensive valuation (standalone 7.9x FY24F EV/EBITDA vs. five-year median of 7.3x), especially considering the slim order book and likely weak order inflow in FY24F.

NCC Ltd

REDUCE, TP Rs104, Rs122 close

We believe the stock trades at an expensive valuation (standalone 6.6x FY24F EV/EBITDA vs. five-year median of 6.1x).

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon Ltd	-6.25	-2572.77	18.5
KNR Constructions Ltd	18.94	15.79	12.4
NCC Ltd	15.39	12.37	10.01

P/BV (x)	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon Ltd	1	0.89	0.85
KNR Constructions Ltd	2.98	2.53	2.11
NCC Ltd	1.33	1.24	1.11

Dividend Yield	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon Ltd	0.05%	0.5%	0.5%
KNR Constructions Ltd	0.12%	0.25%	0.25%
NCC Ltd	1.97%	0.45%	0.55%

Construction

1QFY24 results preview

- We expect a 5-10% yoy growth in 1QFY24F EPC sales of the companies in our coverage, barring NCC where we expect a higher 21% yoy sales growth.
- A rise in the EBITDA margin for Dilip Buildcon to 11.5% (vs. management guidance of 13-14% in FY24F) is the key rerating trigger.
- We have an ADD rating on Dilip Buildcon, a HOLD rating on IRB Infra, IRB InvIT, & PNC Infra, and a REDUCE rating on NCC and KNR Constructions.

1QFY24F results expectations

Since Mar 2020, the order inflow has picked up (Rs1,468bn over FY21-23), resulting in average order book or OB/sales at 2.8x (Mar 2023). We expect a 5-10% yoy growth in EPC sales in 1QFY24F for Dilip Buildcon (DBL), PNC Infra, KNR Constructions & IRB Infra. We expect a higher 21% yoy sales growth for NCC, driven by a strong order book (highest among peers). A rise in the EBITDA margin for DBL to 11.5% (vs. management guidance of 13-14% for FY24F) is a key rerating trigger. For toll-based assets, we forecast a ~5% qoq rise in revenue.

Infra execution: Likely speed bump in FY25F (post general elections)

Government capex on the infrastructure sector via (a) budgetary support, and (b) investment in public sector undertakings (PSUs) via internal and extra budgetary resources (IEBR) grew at a 15% CAGR (FY16-23). Project execution in the years of general elections declined by an average 5% yoy in four prior instances. This was independent of whether there was a change in the government or not. The next general elections are scheduled in May 2024. We expect a strong execution in FY24F, followed by a dip in growth in FY25F.

Reasonable OB; slow award of projects in FY24F is area of concern

The average OB-to-sales ratio for companies under our coverage is 2.8x, like the last six years' average. 20% of the latest OB must be funded by private players, like in FY19 (24%). Order flow in FY23 accounts for 52% of the OB. Based on current OB and HAM projects, we expect net debt/EBITDA (standalone) to be within a reasonable range in FY24F-25F. We factor in a 9% average EPC sales CAGR (FY23-25F) vs. a 10% CAGR over FY20-23.

Stock ratings: ADD (DBL), HOLD (IRB, PNC), REDUCE (KNR, NCC)

We have a REDUCE rating on NCC and KNR Constructions, valuing their EPC business at 6x/7x FY25F EV/EBITDA, respectively. We have a HOLD rating on IRB Infra, valuing its EPC business at 4x FY25F EV/EBITDA, on PNC Infra as well, valuing its EPC business at 6x EV/EBITDA, and on IRB InvIT too. We have an ADD rating on Dilip Buildcon, valuing its EPC business at 5x FY25F EV/EBITDA. Strong order inflow in FY24F vs. our estimates is the upside risk to REDUCE/HOLD ratings.

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Figure 1: 1QFY24F earnings estimates for companies under our coverage

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	16,552	10	2	7,738	12	2	1,298	36	(1)
IRB InvIT	3,078	6	10	2,155	(11)	(5)	988	(4)	(18)
Dilip Buildcon	28,312	8	(1)	3,256	59	20	793	2,732	120
PNC Infra	19,117	11	(10)	2,523	14	(10)	1,623	25	(12)
NCC	35,889	21	(11)	3,589	28	(15)	1,474	23	(17)
KNR Construction	9,797	10	(17)	1,861	13	(12)	1,474	8	(15)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 results preview

Figure 2: 1QFY24F estimates for companies under our coverage

Company	1QFY24F	1QFY23	yoy %	4QFY23	qoq %	Comments
IRB Infra (Consolidated)						
Sales (Rs m)	16,552	15,066	9.9	16,200	2.2	We estimate 5% yoy rise in EPC sales. We estimate 5% yoy rise in BOT Sales driven by traffic.
EPC segment Sales (Rs m)	11,015	10,500	4.9	11,514	(4.3)	
EBITDA (Rs m)	7,738	6,926	11.7	7,587	2.0	
EBITDA margin %	46.7	46.0		46.8		
Adj. PAT (Rs m)	1,298	954	36.1	1,307	(0.7)	
IRB InvIT (Consolidated)						
Sales (Rs m)	3,078	2,911	5.7	2,810	9.5	We expect 10% qoq rise in sales driven by traffic growth.
EBITDA (Rs m)	2,155	2,425	(11.1)	2,280	(5.5)	
EBITDA margin %	70.0	83.3		81.1		
Adj. PAT (Rs m)	988	1,028	(3.9)	1,209	(18.3)	
Dilip Buildcon (Standalone)						
Sales (Rs m)	28,312	26,215	8.0	28,573	(0.9)	We expect 8% yoy rise in sales and 11.5% EBITDA margin. This is higher than the 9.5% EBITDA margin in 4QFY23 and close to management guidance of 13-14% EBITDA margin in FY24F.
EBITDA (Rs m)	3,256	2,054	58.5	2,720	19.7	
EBITDA margin %	11.5	7.8		9.5		
Adj. PAT (Rs m)	793	28	2,732.1	360	120.3	
PNC Infra (Standalone)						
Sales (Rs m)	19,117	17,211	11.1	21,146	(9.6)	We expect 11% yoy sales growth and 13.2% EBITDA margin, similar to historic level.
EBITDA (Rs m)	2,523	2,208	14.3	2,810	(10.2)	
EBITDA margin %	13.2	12.8		13.3		
Adj. PAT (Rs m)	1,623	1,295	25.3	1,845	(12.0)	
NCC (Standalone)						
Sales (Rs m)	35,889	29,586	21.3	40,163	(10.6)	We expect 21% yoy rise in sales as NCC has a high order book/ sales of 3.8x in Mar 2023 and steady EBITDA margin of 10%, similar to historic level.
EBITDA (Rs m)	3,589	2,812	27.6	4,238	(15.3)	
EBITDA margin %	10.0	9.5		10.6		
Adj. PAT (Rs m)	1,474	1,200	22.8	1,777	(17.1)	
KNR Constructions (Standalone)						
Sales (Rs m)	9,797	8,906	10.0	11,756	(16.7)	We expect 10% yoy sales growth and strong 19% EBITDA margin, similar to historic level.
EBITDA (Rs m)	1,861	1,650	12.8	2,119	(12.2)	
EBITDA margin %	19.0	18.5		18.0		
Adj. PAT (Rs m)	1,089	1,008	8.0	1,286	(15.3)	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Strong order flow of FY21-22 continued in FY23 ▶

The average OB-to-sales ratio for companies under our coverage was 2.8x (latest). This augurs well for sales growth in FY24F.

When compared to the Mar 2022 OB-to-sales ratio, the latest OB-to-sales ratio is higher for PNC Infra, similar for NCC, and lower for DBL, IRB Infra and KNR. Among peers, NCC has the highest OB-to-sales ratio, while IRB Infra and KNR's OB-to-sales ratios are low.

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). Since Mar 2020, order flow has picked up (Rs1,468bn in FY21-23).

Figure 3: Order inflow over FY19-23 for EPC companies in our coverage

(Rs bn)	Order inflow					
	FY18	FY19	FY20	FY21	FY22	FY23
Dilip Buildcon	141	64	69	175	72	99
NCC	220	207	(64)	186	99	242
PNC Infra	37	80	12	79	92	129
IRB Infra	90	6	(12)	68	73	84
KNR Constructions	5	38	35	48	52	36
Total	493	396	39	557	388	590

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	FY23
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.5	18	(2)	3	(2)	12
NCC	4.3	3.4	3.2	5.2	4.0	3.8	60	(32)	(12)	39	34
PNC Infra	4.1	4.0	1.8	2.4	2.4	2.9	71	55	3	26	12
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.3	19	11	(25)	13	(2)
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.4	11	5	20	22	14
Total	3.5	2.9	2.2	3.3	2.9	2.8	36	(5)	(5)	17	18

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Order inflow in FY23 accounted for 52% of the latest order book of the sector

	Order flow FY23 (A)	Order book Latest (B)	A/B (%)
Dilip Buildcon	99	254	39
NCC	242	502	48
PNC Infra	129	205	63
IRB Infra	84	88	95
KNR Constructions	36	89	40
Total	590	1,138	52

SOURCE: INCRED RESEARCH, COMPANY REPORTS

20% of the latest OB must be funded by private road developers, like in FY19 (24%) ▶

Around 27% of the 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%.

Figure 6: 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	254	24
NCC	412	-	502	-
PNC Infra	122	34	205	37
IRB Infra	111	85	88	65
KNR Constructions	40	40	89	36
Total	897	24	1,138	20

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Divergent FY24F EV/EBITDA valuations ▶

NCC, PNC Infra and KNR are trading at a premium to their five-year average EV/EBITDA, while DBL is trading at a sharp discount.

Figure 7: Valuations of main third-party construction companies

	EV/ EBITDA (x) for EPC segment		Premium (%) of current FY24F multiple vs.
	5-year average	Current FY24F	5-year average
Dilip Buildcon	5.9	3.6	(39)
NCC	6.1	6.6	8
PNC Infra	5.5	6.6	20
KNR Constructions	7.3	7.9	8
Average	6.2	6.2	(0)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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