

## India

**Underweight** (no change)**Highlighted Companies****KNR Constructions****REDUCE, TP Rs222, Rs262 close**

Over FY19-24F, the average OB/sales ratio was at 2.2x and sales grew at a CAGR of 14%. We forecast flat EPC sales over FY24F-26F, considering the weak OB-to-sales ratio (1.7x).

**NCC****REDUCE, TP Rs150, Rs262 close**

While the OB/sales ratio (3.4x) is healthy, over FY19-24F, the average OB/sales ratio was at 3.8x and sales grew at a CAGR of 8%. We forecast an 8% EPC sales CAGR over FY24F-26F, similar to the FY19-24F CAGR.

**PNC Infratech****REDUCE, TP Rs400, Rs431 close**

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.

**Summary Valuation Metrics**

P/E (x)	Mar24-F	Mar25-F	Mar26-F
KNR Constructions	13.36	13.98	12.67
NCC	18.39	17.32	16.31
PNC Infratech	14.38	19.74	17.94
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
KNR Constructions	2.22	1.93	1.68
NCC	2.35	2.08	1.86
PNC Infratech	2.2	1.98	1.79
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
KNR Constructions	0.24%	0.24%	0.24%
NCC	0.32%	0.32%	0.34%
PNC Infratech	0.16%	0.18%	0.19%

**Construction****4QFY24 results preview**

- We expect ~8% yoy decline but a 7% qoq rise in 4QFY24F EPC sales of companies in our coverage, barring NCC, where we see a 15% yoy rise.
- We have an Underweight rating on the sector because of a likely slowdown in awarding new projects and stretched stock valuations.

**4QFY24F results expectations**

We expect ~8% yoy decline but a 7% qoq rise in EPC sales in 4QFY24F for Dilip Buildcon (DBL), PNC Infratech & KNR Constructions. We expect 15% yoy sales growth for NCC, driven by its strong order book (highest among peers). For toll-based assets, we forecast ~5% qoq rise in revenue. We factor in a steady EPC EBITDA margin for the companies in our coverage universe, similar to that in 3QFY24.

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

The government's capex on the infrastructure sector via (a) budgetary support, and (b) investment in public sector undertakings (PSUs) by way of internal and extra budgetary resources (IEBR) grew at a 15% CAGR (FY16-23). Project execution in the years of general elections fell 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.

**Concerns over a dip in order inflow in the next six months**

EPC sales/ EBITDA in 3QFY24 for the companies under our coverage grew by 23% each. The average order book or OB-to-sales ratio was at 2.2x (vs. 2.8x in Mar 2023). Order inflow (Rs276bn) in 9MFY24 was lower than the run-rate in FY23 (Rs531bn). Order inflow in 9MFY24 accounted for 25% of the order book. We factor in a 6% average EPC sales CAGR (FY24F-26F) vs. 8% (FY19-24F). When compared to the Mar 2023 OB-to-sales ratio, the latest number is lower for all companies in our coverage universe.

**Key stock ratings: REDUCE NCC, KNR, PNC Infratech & IRB Infra**

NCC & PNC Infratech trade at a premium to their six-year median EV/EBITDA while Dilip Buildcon or DBL & KNR Constructions trade close to their median levels. However, we feel KNR Constructions' valuation is rich (8.4x FY25F). We have a REDUCE rating on NCC, KNR Constructions, and PNC Infratech, valuing their EPC business at 6x/ 6x/ 6.5x FY26F EV/EBITDA, respectively. We also have a REDUCE rating on IRB Infrastructure due to its rich valuation (2.7x P/BV FY24F). Strong order inflow in 1HFY25F vs. our estimate is the upside risk to our REDUCE ratings.

**Research Analyst(s)****Rajarshi MAITRA**

T (91) 22 4161 1546

E rajarshi.maitra@incredresearch.com

**Shivam AGARWAL**

T (91) 22 4161 1500

E shivam.agarwal@incredresearch.com

**Figure 1: 4QFY24F earnings for companies in our coverage universe**

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	19,467	20	(1)	8,487	12	(2)	1,385	6	(26)
IRB InvT	2,746	(2)	3	2,279	(0)	17	1,108	(8)	37
Dilip Buildcon	26,380	(8)	3	3,350	23	5	1,044	190	39
PNC Infratech	20,789	(2)	15	2,744	(2)	15	1,738	(6)	15
NCC	46,323	15	(2)	4,632	9	(3)	1,983	12	(7)
KNR Construction	9,456	(20)	4	1,655	(22)	12	1,983	(24)	14

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 4QFY24 results preview

**Figure 2: 4QFY24F estimates for companies in our coverage universe**

Company	4QFY24F	4QFY23	yoy %	3QFY24	qoq %	Comments
<b>IRB Infra (Consolidated)</b>						
Sales (Rs m)	19,467	16,200	20.2	19,685	(1.1)	We estimate 14% yoy rise in EPC sales. We estimate 16% yoy rise in BOT Sales driven by traffic and tariff hikes.
EPC segment Sales (Rs m)	13,116	11,514	13.9	14,407	(9.0)	
BOT segment Sales (Rs m)	6,351	5,475	16.0	6,366	(0.2)	
EBITDA (Rs m)	8,487	7,587	11.9	8,695	(2.4)	
EBITDA margin %	43.6	46.8		44.2		
Adj. PAT (Rs m)	1,385	1,307	6.0	1,874	(26.1)	
<b>IRB InvIT (Consolidated)</b>						
Sales (Rs m)	2,746	2,810	(2.3)	2,678	2.5	We expect flat EBITDA yoy due to lower contribution from Vadodara Kim project.
EBITDA (Rs m)	2,279	2,280	(0.1)	1,947	17.1	
EBITDA margin %	83.0	81.2		72.7		
Adj. PAT (Rs m)	1,108	1,209	(8.4)	809	36.9	
<b>Dilip Buildcon (Standalone)</b>						
Sales (Rs m)	26,380	28,573	(7.7)	25,711	2.6	We expect 23% yoy rise in EBITDA due to margin expansion from 9.5% yoy to 12.7% in 4QFY24 (similar to 3QFY24).
EBITDA (Rs m)	3,350	2,720	23.2	3,185	5.2	
EBITDA margin %	12.7	9.5		12.4		
Adj. PAT (Rs m)	1,044	360	190.1	750	39.3	
<b>PNC Infratech (Standalone)</b>						
Sales (Rs m)	20,789	21,146	(1.7)	18,027	15.3	We expect 2% yoy decline in Sales and EBITDA due to slim OB-to-sales.
EBITDA (Rs m)	2,744	2,810	(2.3)	2,395	14.6	
EBITDA margin %	13.2	13.3		13.3		
Adj. PAT (Rs m)	1,738	1,845	(5.8)	1,511	15.1	
<b>NCC (Standalone)</b>						
Sales (Rs m)	46,323	40,163	15.3	47,469	(2.4)	We expect 15% yoy rise in sales (slower than 9MFY24 rise) and steady EBITDA margin of 10%, similar to historic level.
EBITDA (Rs m)	4,632	4,238	9.3	4,793	(3.4)	
EBITDA margin %	10.0	10.6		10.1		
Adj. PAT (Rs m)	1,983	1,777	11.6	2,128	(6.8)	
<b>KNR Constructions (Standalone)</b>						
Sales (Rs m)	9,456	11,756	(19.6)	9,054	4.4	We expect ~20% yoy decline in EBITDA due to slim OB-to-sales.
EBITDA (Rs m)	1,655	2,119	(21.9)	1,473	12.3	
EBITDA margin %	17.5	18.0		16.3		
Adj. PAT (Rs m)	977	1,286	(24.1)	855	14.2	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Order inflow likely to slow down in 2HFY24F-1HFY25F ▶

The average OB-to-sales ratio for companies in our coverage universe was 2.2x (latest), lower than that in Mar 2023 (2.8x). Order inflow (Rs276bn) in 9MFY24 was lower than the run-rate in FY23 (Rs531bn).

When compared to the Mar 2023 construction OB-to-sales ratio, the latest number is lower for all companies in our coverage. NCC has the highest OB-to-sales ratio while IRB Infrastructure and KNR Constructions' OB-to-sales ratios are low.

While NCC's OB/sales ratio (3.4x) is healthy, we note that over FY19-24F the average OB/ sales ratio was at 3.8x and sales grew at a CAGR of 8%. We forecast an 8% EPC sales CAGR over FY24F-26F, similar to the FY19-24F CAGR.

**Figure 3: Order inflow (construction projects) over FY19-9MFY24 for EPC companies in our coverage universe**

(Rs bn)	Order inflow						
	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24
Dilip Buildcon	141	64	69	175	72	99	41
NCC	220	207	(64)	186	99	242	203
PNC Infratech	37	80	12	79	92	129	26
IRB Infra	90	6	(12)	68	70	25	-
KNR Constructions	5	38	35	48	52	36	7
<b>Total</b>	<b>493</b>	<b>396</b>	<b>39</b>	<b>557</b>	<b>385</b>	<b>531</b>	<b>276</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

	Order book/ Sales (x)							yoy Sales growth (%)					
	FY18	FY19	FY20	FY21	FY22	FY23	Latest	FY19	FY20	FY21	FY22	FY23	9MFY24
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.5	2.1	18	(2)	3	(2)	12	5
NCC	4.3	3.4	3.2	5.2	4.0	3.8	3.4	60	(32)	(12)	39	34	41
PNC Infratech	4.1	4.0	1.8	2.4	2.4	2.9	2.3	71	55	3	26	13	9
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.3	1.7	19	11	(25)	13	(3)	28
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.4	1.7	11	5	20	22	14	9
<b>Average</b>	<b>3.3</b>	<b>2.8</b>	<b>2.1</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>2.2</b>	<b>36</b>	<b>8</b>	<b>(2)</b>	<b>20</b>	<b>14</b>	<b>18</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Order inflow in 9MFY24 accounted for 25% of the order book**

(Rs bn)	Order flow 9MFY24 (A)	Order book Latest (B)	A/B (%)
Dilip Buildcon	41	218	19
NCC	203	574	35
PNC Infratech	26	174	15
IRB Infra	-	69	-
KNR Constructions	7	67	10
<b>Total</b>	<b>276</b>	<b>1,103</b>	<b>25</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**25% of the latest OB must be funded by private road developers, similar to that in FY19 (24%) ▶**

**Figure 6: Percentage of OB to be funded by companies in our coverage universe**

(Rs bn)	Order book - FY19		Order book - latest	
	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	218	28
NCC	412	-	574	14
PNC Infratech	122	34	174	33
IRB Infra	111	85	69	82
KNR Constructions	40	40	67	34
<b>Total</b>	<b>897</b>	<b>24</b>	<b>1,103</b>	<b>25</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Stocks trade at a premium to their six-year median EV/EBITDA ▶**

NCC and PNC Infratech are trading at a premium to their six-year median EV/EBITDA while DBL and KNR Constructions trade close to their six-year median levels. However, we believe KNR's valuation is expensive (8.4x FY25F).

**Figure 7: Valuations of main third-party construction companies**

	EV/ EBITDA (x) for EPC segment		Premium (%) of FY25F multiple vs.
	6-year median	FY25F	6-year median
Dilip Buildcon	5.6	5.9	5
NCC	5.9	9.9	68
PNC Infratech	5.7	8.0	40
KNR Constructions	8.2	8.4	2
<b>Average</b>	<b>6.4</b>	<b>8.1</b>	<b>27</b>

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. INH000011024. 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.