

India

Underweight (no change)**Highlighted Companies****KNR Constructions****REDUCE, TP Rs222, Rs349 close**

Over FY19-24, the average OB/sales ratio was at 2.2x and sales grew at a CAGR of 15%. We forecast flat EPC sales over FY24-26F considering the weak OB-to-sales ratio (1.6x).

NCC**REDUCE, TP Rs150, Rs316 close**

While the OB/sales ratio (3.1x) was healthy over FY19-24, the average OB/sales ratio was at 3.8x and sales grew at a 9% CAGR. We forecast a 7% EPC sales CAGR over FY24-26F.

PNC Infratech**REDUCE, TP Rs400, Rs481 close**

PNC Infratech gave guidance of a 12-12.5% EBITDA margin, lower than in FY24 (13.3%) due to higher competition. This implies a 2-3% yoy rise in EBITDA, 7% below our estimate.

Summary Valuation Metrics

P/E (x)	Mar24-A	Mar25-F	Mar26-F
KNR Constructions	17.81	18.63	16.89
NCC	22.23	20.94	19.71
PNC Infratech	16.06	22.04	20.04

P/BV (x)

	Mar24-A	Mar25-F	Mar26-F
KNR Constructions	2.96	2.57	2.24
NCC	2.84	2.51	2.24
PNC Infratech	2.45	2.21	2

Dividend Yield

	Mar24-A	Mar25-F	Mar26-F
KNR Constructions	0.18%	0.18%	0.18%
NCC	0.27%	0.27%	0.28%
PNC Infratech	0.14%	0.16%	0.17%

Constrn & Material - Overall**1QFY25 results preview**

- We expect a 13% yoy decline in 1QFY25F EPC sales of companies in our coverage universe, barring NCC where we factor in a 7% yoy rise in sales.
- We have an Underweight rating on the sector because of a likely slowdown in project execution in FY25F and stretched stock valuations.

1QFY25 results expectations

We expect a 13% yoy decline in EPC sales in 1QFY25F for Dilip Buildcon (DBL), PNC Infratech & KNR Constructions. We expect a 7% 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, like that in 4QFY24.

Infrastructure projects execution: Likely speed bump in FY25F

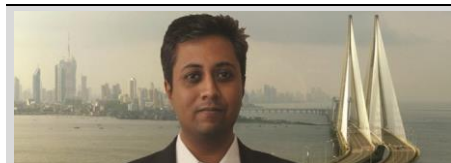
The government's capex on the infrastructure sector via (a) budgetary support, and (b) investment in public sector undertakings (PSUs) by way of internal and extra budgetary resources (IEBR) grew at a 15% CAGR (FY16-23). Project execution in the years of general elections in India fell by an average 5% yoy in four prior instances. This was independent of whether there was a change in the government or not. The last general elections in India were held in May-Jun 2024. We expect a dip in execution in FY25F, after a strong FY24.

Concern over slim OB-to-sales ratio

EPC sales/ EBITDA in 4QFY24 for the companies under our coverage universe grew by 14%/12%, respectively. The average OB-to-sales ratio was at 1.9x (vs. 2.8x in Mar 2023). Order inflow (Rs344bn) in FY24 was lower than the run-rate in FY23 (Rs531bn). Order inflow in FY24 accounted for 34% of the order book. We factor in a 6% average EPC sales CAGR (FY24-26F) vs. 9% (FY19-24). When compared to the Mar 2023 OB-to-sales ratio, the latest number is lower for all companies in our coverage universe.

Key stock calls: REDUCE NCC, KNR, PNC Infra & IRB Infrastructure

NCC, PNC Infratech, KNR Constructions and Dilip Buildcon trade at a premium to their six-year median EV/EBITDA. We have a REDUCE rating on NCC, KNR Constructions, and PNC Infra, 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 (2.8x FY24 P/BV). Strong order inflow in FY25F vs. our estimate is the upside risk to the REDUCE ratings.

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Figure 1: 1QFY25F earnings estimates for companies under our coverage

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	17,105	5	(17)	7,799	0	(12)	1,251	(7)	(1)
IRB InvT	2,851	8	4	2,367	8	2	1,059	5	3
Dilip Buildcon	21,790	(16)	(26)	2,724	(19)	(23)	809	(3)	(25)
PNC Infratech	17,500	(6)	(14)	2,310	(6)	(14)	1,443	(8)	37
NCC	41,097	7	(25)	3,904	3	(23)	1,473	(9)	(40)
KNR Constructions	7,801	(16)	(34)	1,365	(21)	(33)	1,473	(31)	(48)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 results preview

Figure 2: 1QFY25F estimates for companies under our coverage

Company	1QFY25F	1QFY24	yoy %	4QFY24	qoq %	Comments
IRB Infra (Consolidated)						
Sales (Rs m)	17,105	16,342	4.7	20,612	(17.0)	We estimate 7% yoy decline in EPC sales. We estimate 7% yoy rise in BOT Sales driven by traffic.
EPC segment Sales (Rs m)	10,550	11,329	(6.9)	15,394	(31.5)	
BOT segment Sales (Rs m)	6,555	6,126	7.0	6,401	2.4	
EBITDA (Rs m)	7,799	7,778	0.3	8,899	(12.4)	
EBITDA margin %	45.6	47.6		43.2		
Adj. PAT (Rs m)	1,251	1,338	(6.5)	1,261	(0.8)	
IRB InvIT (Consolidated)						
Sales (Rs m)	2,851	2,644	7.8	2,733	4.3	We expect 8% yoy rise in EBITDA yoy driven by traffic.
EBITDA (Rs m)	2,367	2,198	7.7	2,316	2.2	
EBITDA margin %	83.0	83.1		84.7		
Adj. PAT (Rs m)	1,059	1,006	5.3	1,031	2.7	
Dilip Buildcon (Standalone)						
Sales (Rs m)	21,790	26,084	(16.5)	29,308	(25.7)	We expect 17% yoy dip in Sales due to 31% yoy dip in order book (Mar 2024).
EBITDA (Rs m)	2,724	3,348	(18.6)	3,524	(22.7)	
EBITDA margin %	12.5	12.8		12.0		
Adj. PAT (Rs m)	809	834	(3.0)	1,074	(24.7)	
PNC Infratech (Standalone)						
Sales (Rs m)	17,500	18,614	(6.0)	20,452	(14.4)	We expect 6% yoy decline in Sales and EBITDA due to slim OB-to-sales of 2.1x in Mar 2024.
EBITDA (Rs m)	2,310	2,451	(5.8)	2,684	(13.9)	
EBITDA margin %	13.2	13.2		13.1		
Adj. PAT (Rs m)	1,443	1,566	(7.9)	1,055	36.8	
NCC (Standalone)						
Sales (Rs m)	41,097	38,383	7.1	54,460	(24.5)	We expect 7% yoy rise in sales and EBITDA margin similar to 4QFY24.
EBITDA (Rs m)	3,904	3,806	2.6	5,097	(23.4)	
EBITDA margin %	9.5	9.9		9.4		
Adj. PAT (Rs m)	1,473	1,623	(9.2)	2,439	(39.6)	
KNR Constructions (Standalone)						
Sales (Rs m)	7,801	9,296	(16.1)	11,793	(33.9)	We expect ~20% yoy decline in EBITDA due to slim OB-to-sales.
EBITDA (Rs m)	1,365	1,733	(21.2)	2,032	(32.8)	
EBITDA margin %	17.5	18.6		17.2		
Adj. PAT (Rs m)	762	1,103	(30.9)	1,453	(47.6)	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Order inflow slows down in FY24 ▶

The average OB-to-sales ratio for companies under our coverage was 1.9x (FY24), lower than that in Mar 2023 (2.8x). Order inflow (Rs344bn) in FY24 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 (3.1x) is healthy, we note that over FY19-24 the average OB/ sales ratio was at 3.8x and sales grew at a CAGR of 9%. We forecast a 10% EPC sales CAGR over FY24-26F.

Figure 3: Order inflow (construction projects) over FY19-24 for EPC companies in our coverage

(Rs bn)	Order inflow						
	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Dilip Buildcon	141	64	69	175	72	99	25
NCC	220	207	(64)	186	99	242	273
PNC Infratech	37	80	12	79	92	129	23
IRB Infra	90	6	(12)	68	70	25	-
KNR Constructions	5	38	35	48	52	36	22
Total	493	396	39	557	385	531	344

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

	Order book/ Sales (x)							yoy Sales growth (%)					
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY19	FY20	FY21	FY22	FY23	FY24
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.5	1.7	18	(2)	3	(2)	12	4
NCC	4.3	3.4	3.2	5.2	4.0	3.8	3.1	60	(32)	(12)	39	34	39
PNC Infratech	4.1	4.0	1.8	2.4	2.4	2.9	2.1	71	55	3	26	13	5
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.3	1.2	19	11	(25)	13	(3)	30
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.4	1.3	11	5	20	22	14	7
Average	3.3	2.8	2.1	3.0	2.9	2.8	1.9	36	8	(2)	20	14	17

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Order inflow in FY24 accounted for 34% of the order book

(Rs bn)	Order flow FY24 (A)	Order book FY24 (B)	A/B (%)
Dilip Buildcon	25	174	15
NCC	273	575	47
PNC Infratech	23	154	15
IRB Infra	-	57	-
KNR Constructions	22	53	42
Total	344	1,013	34

SOURCE: INCRED RESEARCH, COMPANY REPORTS

22% of the latest order book must be funded by private road developers, like that in FY19 (24%) ▶

Figure 6: Percentage of the order book to be funded by companies in our coverage

(Rs bn)	Order book - FY19		Order book - FY24	
	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	174	22
NCC	412	-	575	14
PNC Infratech	122	34	154	33
IRB Infra	111	85	57	69
KNR Constructions	40	40	53	30
Total	897	24	1,013	22

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

NCC, PNC Infratech, KNR Constructions and Dilip Buildcon are trading at a premium to their six-year median EV/EBITDA.

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	6.7	20
NCC	5.9	11.5	95
PNC Infratech	5.8	9.6	66
KNR Constructions	8.2	12.0	46
Average	6.4	10.0	56

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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