

India

**Underweight** (no change)**Highlighted Companies****KNR Constructions****REDUCE, TP Rs222, Rs341 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 (1.5x).

**NCC****REDUCE, TP Rs150, Rs310 close**

While the OB/sales (2.7x) is 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, Rs460 close**

PNC Infratech gave guidance of a 12-12.5% EBITDA margin, lower than in FY24 (13.3%) due to intense competition.

**Summary Valuation Metrics**

P/E (x)	Mar24-F	Mar25-F	Mar26-F
KNR Constructions	17.4	18.2	16.5
NCC	21.77	20.51	19.31
PNC Infratech	15.34	21.04	19.13

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
KNR Constructions	2.89	2.51	2.19
NCC	2.78	2.46	2.2
PNC Infratech	2.34	2.11	1.91

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
KNR Constructions	0.18%	0.18%	0.18%
NCC	0.27%	0.27%	0.29%
PNC Infratech	0.15%	0.16%	0.18%

# Constrn & Material - Overall

## Weak order book to lead to tepid execution in FY25F

- The industry avg. OB-to-sales ratio was at just 2.1x, 29% lower vs. Mar 2023 level & the five-year avg. Thus, we expect weak project execution in FY25F.
- Stocks in our coverage universe are at steep valuations. We maintain our Underweight rating on the sector.

### 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 16% CAGR (FY16-24). 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. We expect a dip in execution in FY25F.

### Budget 2024-25 impact: weak allocation - history repeats itself

Capital allocation to infrastructure + internal & extra budgetary resources (IEBR) for PSUs was Rs7.4tr (2% more than in FY24 Budget & 6% more than in the FY24 revised estimate). This is a far cry from the growth witnessed in the last two years, when spending rose by ~30-35% yoy. In the last general elections (FY20), spending declined by 17% yoy, despite the FY20 budget estimate being 8% higher than that of the FY19 budget.

### Average OB-to-sales ratio (2.1x) is 29% below Mar 2023 level

In 1QFY25, construction revenue of listed companies rose by just 1% yoy, much below the 15% yoy growth in FY24. The industry OB-to-sales ratio (2.65x) was 13% below that in Mar 2023 & the five-year average. The industry average OB-to-sales ratio was lower at 2.1x and 29% lower vs. Mar 2023 & the five-year average. While the 1HFY24 industry order inflow rose by 13% yoy, we feel weak 2HFY24 order inflow (down 35% yoy) & 1QFY25 (down 4% yoy) will have a strong impact on FY25F sales. In FY22-23, 2H accounted for 66% of full-year order inflow but in FY24, 2H accounted for just 49%. The FY24-1QFY25 industry EBITDA margin was at 10.1%, 156bp lower than in FY20. We feel the margin dip has a strong negative impact on EBITDA in a slim-margin sector like construction. Over FY20-24, while industry sales grew at a 10.1% CAGR, EBITDA grew at just a 6.4% CAGR.

### Coverage companies: concern over slim OB-to-sales ratio

EPC EBITDA in 1QFY25 for the companies under our coverage universe declined by 12% yoy. The average OB-to-sales ratio was at 1.8x (vs. 2.8x in Mar 2023). Order inflow (Rs344bn) in FY24 and in 1QFY25 (Rs18bn) was lower than the run-rate in FY23 (Rs531bn). 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 and KNR Constructions are trading at a sharp premium to their six-year median EV/EBITDA while Dilip Buildcon or DBL trades at a 16% premium to its six-year median. 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 FY24 P/BV). Strong order inflow in FY25F 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: 1QFY25 results summary**

(Rs m)	Revenue	yoy %	EBITDA	yoy %	Adj. PAT	yoy %
IRB Infrastructure	18,529	13	8,570	10	1,400	5
IRB InvIT	2,696	2	2,127	-3	858	-15
Dilip Buildcon	23,579	-10	2,624	-22	474	-43
PNC Infratech	13,092	-30	1,583	-35	947	-40
NCC	47,133	23	4,396	16	2,007	24
KNR Constructions	8,193	-12	1,356	-22	808	-27

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Weak order book to lead to tepid execution in FY25F

### Infrastructure spending trend (FY05-23): We expect project execution to face a speed bump in FY25F >

**Budgetary support accounts for 82% of the total spending on government infrastructure projects (FY24RE):** Over FY16-24, government capex on infrastructure via (a) budgetary support, and (b) investment in public sector undertakings or PSUs via internal and extra budgetary resources (IEBR) grew at a 17% CAGR. Government capex on infrastructure via budgetary support grew at a 30% CAGR, but investment in public sector undertakings or PSUs via IEBR declined at a 1% CAGR. The proportion of funding for infrastructure spending via budgetary support rose from 35% (FY16) to 82% (FY24RE).

**Figure 2: Spending by the government on infrastructure sector**

(yoy growth %)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24RE	CAGR FY16-24
Total	20	11	31	(14)	13	20	33	21	16
Revenue Expenditure	6	21	0	3	12	60	22	(10)	13
Capital Expenditure	38	6	26	9	45	18	75	37	30
Investment in PSUs - IEBR	16	10	48	(31)	(13)	1	(26)	9	(1)
Capital + Investment in PSUs - IEBR	23	9	40	(17)	13	11	36	31	17

Note: IEBR - Internal and Extra budgetary resources, PSU - Public sector Undertakings

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

Note: Indian Railways was included in the Union Budget from FY16. Thus, for comparison over FY04-24, we have used the numbers excluding railways.

Over FY04-24, government capex on infrastructure via (a) budgetary support, and (b) investment in PSUs via IEBR grew at a 14% CAGR. Budgetary support for government capex on infrastructure (ex-railways) grew at a 23% CAGR while investment in public sector undertakings or PSUs via IEBR grew at just a 7% CAGR.

**Figure 3: Government spending on infrastructure sector (excluding railways)**

(yoy growth %)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Total ex-Railways	7	53	13	21	11	4	5	4	4	19
Revenue Expenditure	58	28	31	16	16	17	12	(4)	2	(1)
Capital Expenditure	34	33	(25)	7	13	20	45	(11)	47	25
Investment in PSUs - IEBR	(14)	74	14	26	8	(5)	(6)	14	(3)	30
Capital + Investment in PSUs - IEBR	(7)	65	7	24	9	(2)	1	9	5	29

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

**Figure 4: Government spending on infrastructure sector (excluding railways)**

(yoy growth %)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24RE
Total ex-Railways	(2)	35	18	21	17	(4)	1	28	32	12
Revenue Expenditure	12	28	6	18	0	3	11	63	21	(10)
Capital Expenditure	42	6	48	15	29	(1)	25	30	113	29
Investment in PSUs - IEBR	(21)	54	14	26	20	(8)	(16)	5	(29)	5
Capital + Investment in PSUs - IEBR	(7)	38	23	22	22	(6)	(3)	15	37	22

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

**Project execution during the years of general elections declined by an average of 5% yoy in four prior instances (FY05,10,15,20).** However, infrastructure spending has been robust in the years before the elections (FY09,14,19) as the government ramps up project execution prior to general elections.

**The decline in project execution during general election years is independent of whether there was a change in the government (FY05 – National Democratic Alliance [NDA] to United Progressive Alliance [UPA],**

**FY15 – UPA to NDA) or not (FY10 – UPA, FY20 – NDA).** We expect strong execution in FY24F, followed by a dip in growth in FY25F.

**This trend is reflected in the 3% yoy dip in EPC revenue of construction companies in FY20 (election year). However, EPC revenue of construction companies rose by 3% yoy in FY15 (election year) – likely due to higher contribution from private capex.**

**Figure 5: Revenue of listed construction companies – we have considered L&T (domestic construction), PNC Infratech, NCC, KNR Constructions, Dilip Buildcon, IRB Infrastructure, HCC, ITD Cementation and HG Infra Engineering for our analysis**

(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	CAGR %
L&T domestic Construction	541	560	585	648	770	765	667	821	935	1,037	7
yoy growth %	-0	3	4	11	19	-1	-13	23	14	11	
Other companies	212	260	279	307	399	373	352	440	526	636	13
yoy growth %	13	23	7	10	30	-7	-6	25	20	21	
<b>Total</b>	<b>753</b>	<b>820</b>	<b>864</b>	<b>955</b>	<b>1,169</b>	<b>1,138</b>	<b>1,018</b>	<b>1,261</b>	<b>1,462</b>	<b>1,673</b>	<b>9</b>
<b>yoy growth %</b>	<b>3</b>	<b>9</b>	<b>5</b>	<b>11</b>	<b>22</b>	<b>-3</b>	<b>-11</b>	<b>24</b>	<b>16</b>	<b>14</b>	
Spending on Infra (ex railways) - capital + investment in PSUs (IEBR)	979	1,348	1,654	2,026	2,481	2,340	2,273	2,622	3,604		18
yoy growth %	-7	38	23	22	22	-6	-3	15	37		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Budget FY25 impact: Weak allocation; history repeats itself – no change from interim budget ▶**

**Capital allocation to infrastructure + internal & extra budgetary resources (IEBR) for PSUs was Rs7.4tr (2% more than in FY24 Budget and 6% more than FY24 revised estimate) – no change from the interim budget. This is a far cry from the growth witnessed in the last two years, when spending rose by ~30-35% yoy.**

Note: We consider spending on the sectors such as roads, railways, power (including renewable), civil aviation, telecom, drinking water and shipping.

- We note that in the last general election (FY20), spending declined by 17% yoy, despite the FY20 budget estimate being 8% higher than in the FY19 budget. The weak growth is in line with our expectation.
- Capital allocation, ex-IEBR, rose by 6% yoy (vs. FY24RE) to Rs6.1tr. 83% of the funding in FY25F is likely from budgetary support, like that in FY24.

**Figure 6: Capital + investment in PSUs via IEBR in FY19,20, 24 and 25**

(Rs bn)	FY19	FY20	Growth %	FY24	FY25	Growth %
Budget	3,201	3,461	8	7,266	7,397	2
Revised	3,520	4,491	28	7,003	na	
Actual	3,787	3,132	(17)	na	na	
Actual as % of Budget	118	90				

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

- Allocation to the road and railway sectors (73% of overall spending on infrastructure) was flat vs. FY24 revised estimate.
- Roads: Overall allocation increased by 1% yoy to Rs2.8tr. Budgetary support increased by 1% yoy for the National Highways Authority of India (NHAI) and the Ministry of Road Transport and Highways or MoRTH. 100% of the allocation to NHAI is via budgetary support. This implies that NHAI's leverage is unlikely to increase.

**Industry average OB-to-sales ratio is 2.1x (29% below Mar 2023 & five-year average) and is likely to lead to weak execution in FY25F >**

In 1QFY25, sales of listed companies rose by just 1% yoy, much below the 15% yoy growth in FY24. Ex-L&T, sales rose by 7% yoy, vs. a 21% yoy rise in FY24. The growth in FY24 was in line with the historical trend of strong execution in the year prior to general elections (FY09,14,19). Order flow in FY24/ 1QFY25 declined by 16% yoy/ 4% yoy, but, ex-L&T, in FY24/ 1QFY25 the decline was 35%/ 23% yoy. OB in 1QFY25 was like that in Mar 2023, but, ex-L&T, 1QFY25 OB is 13% lower.

**Note:** The performance of L&T's domestic EPC business has a profound impact on the industry. In FY24, it comprised 62%/ 70%/ 67%/ 49% of industry's sales/ order inflow/ OB/ EBITDA, respectively, (based on our select companies).

**Figure 7: Revenue, order inflow and order book of listed construction companies – we have considered L&T (domestic construction), PNC Infratech, NCC, KNR Constructions, DBL, IRB Infrastructure, HCC, ITD Cementation and HG Infra Engineering for our analysis**

	1HFY20	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	2HFY24	1QFY25
<b>Sales (Rs bn)</b>											
Industry	514	626	349	668	513	751	630	831	761	912	387
yoy growth %			(32)	7	47	12	23	11	21	10	1
L&T Domestic construction	335	431	214	452	313	509	392	543	470	567	230
yoy growth %			(36)	5	46	13	26	7	20	4	(3)
Others	179	195	136	215	201	242	238	289	291	345	157
yoy growth %			(24)	11	48	12	18	19	22	20	7
<b>Order flow (Rs bn)</b>											
Industry	691	544	485	1,222	419	1,006	740	1,212	840	791	409
yoy growth %			(30)	125	(14)	(18)	77	20	13	(35)	(4)
L&T Domestic construction	520	369	227	843	268	614	475	741	553	597	326
yoy growth %			(56)	129	18	(27)	77	21	16	(19)	2
Others	172	175	258	379	151	392	266	471	288	194	83
yoy growth %			50	116	(42)	4	76	20	8	(59)	(23)
<b>Order book (Rs bn)</b>											
Industry	3,486	3,288	3,395	3,871	3,782	4,010	4,098	4,473	4,507	4,390	4,440
yoy growth %			(3)	18	11	4	8	12	10	(2)	(1)
L&T Domestic construction	2,361	2,289	2,273	2,586	2,547	2,624	2,684	2,877	2,914	2,949	3,052
yoy growth %			(4)	13	12	1	5	10	9	3	5
Others	1,125	999	1,122	1,285	1,235	1,386	1,414	1,596	1,593	1,441	1,388
yoy growth %			(0)	29	10	8	14	15	13	(10)	(11)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The Jun 2024 OB-to-sales (2.65x) was 13% below that in Mar 2023 & the five-year average. Ex-L&T, the OB-to-sales ratio was at 2.15 and the decline was sharper (29%/ 26% below Mar 2023 level/ five-year average, respectively). **The average OB-to-sales was 2.1x and it was 29% lower vs. Mar 2023 level and the five-year average.**

**Figure 8: OB-to-sales ratios of listed construction companies**

OB/ Sales (x)	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	2HFY24	1QFY25	% chg vs. Mar 23
Industry	2.89	3.48	3.81	3.20	3.17	2.97	3.06	2.83	2.62	2.65	(13.4)
L&T Dom. construction	2.99	3.53	3.89	3.33	3.19	2.98	3.08	2.88	2.84	2.96	(3.6)
Others	2.67	3.40	3.66	2.97	3.13	2.95	3.03	2.75	2.27	2.15	(29.2)
Dilip Buildcon	2.12	2.87	2.98	2.38	2.84	2.75	2.51	2.11	1.65	1.81	(27.9)
NCC	3.26	4.18	5.31	4.60	3.96	3.39	3.78	3.92	3.11	2.71	(28.2)
PNC Infratech	1.81	1.57	2.36	2.26	2.36	1.78	2.92	2.44	2.08	2.06	(29.4)
KNR Constructions	2.33	3.70	2.65	2.10	2.75	2.31	1.91	1.46	1.34	1.28	(33.0)
IRB Infrastructure	0.91	1.21	2.03	1.45	2.43	2.21	2.12	1.65	1.06	0.86	(59.5)
HG Infra	3.23	3.29	2.79	2.00	2.21	2.88	2.89	2.25	2.43	2.92	1.1
HCC	4.59	7.14	6.90	4.60	3.42	2.79	2.83	2.30	2.08	1.88	(33.6)
ITD Cementation	5.48	6.54	5.31	4.05	4.78	5.77	4.29	3.59	2.60	2.25	(47.5)
<b>Average OB/ Sales</b>	<b>2.97</b>	<b>3.78</b>	<b>3.80</b>	<b>2.97</b>	<b>3.11</b>	<b>2.98</b>	<b>2.92</b>	<b>2.51</b>	<b>2.13</b>	<b>2.08</b>	<b>(28.8)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

While the 1HFY24 industry order inflow rose by 13% yoy, we believe the weak 2HFY24F order inflow (down 35% yoy) & 1QFY25 (down 4% yoy) will have a strong impact on FY25F sales. In FY22-23, 2H accounted for 66% of the full-year order inflow but in FY24, 2H accounted for just 49%.

**Figure 9: In FY22-23, 2H accounted for 58%/ 66% of full-year sales/ order inflow, respectively, for EPC companies; in FY24, the contribution of 2H to full-year sales was 55% (similar to FY22-23 levels) but just 49% of the full-year order inflow (lower than in FY22-23)**

2H as a % of full year	FY20	FY21	FY22	FY23	FY24
<b>Sales</b>					
Industry	55	66	59	57	55
L&T Dom. construction	56	68	62	58	55
Others	52	61	55	55	54
<b>Order flow</b>					
Industry	44	72	71	62	49
L&T Dom. construction	42	79	70	61	52
Others	51	59	72	64	40

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The FY24-1QFY25 industry EBITDA margin was at 10.1%, 156bp lower than in FY20. Ex-L&T, industry EBITDA margin was at 13.6%, 290bp lower than in FY20. We believe the margin dip has a strong negative impact on EBITDA in a slim-margin sector like construction. Over FY20-24, while industry sales grew at a 10.1% CAGR, EBITDA grew at just a 6.4% CAGR. Ex-L&T, industry sales grew at a 14.2% CAGR but EBITDA grew at just a 9% CAGR.

**Figure 10: EBITDA and EBITDA margin of listed players**

	1HFY20	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	2HFY24	1QFY25
<b>EBITDA (Rs bn)</b>											
Industry	61	72	39	82	58	84	64	87	75	96	38
yoy growth %			(37)	13	51	3	10	3	17	11	1
L&T Domestic construction	31	41	17	48	28	49	32	48	35	49	17
yoy growth %			(46)	17	69	1	16	(1)	7	2	(0)
Others	30	31	22	34	30	36	32	38	40	47	21
yoy growth %			(27)	8	37	5	5	8	27	22	3
<b>EBITDA margin %</b>											
Industry	11.9	11.6	11.1	12.2	11.3	11.2	10.2	10.4	9.9	10.5	9.8
L&T Domestic construction	9.2	9.5	7.8	10.6	9.0	9.5	8.2	8.9	7.4	8.7	7.6
Others	17.0	16.1	16.3	15.7	15.0	14.7	13.4	13.3	13.9	13.6	13.1
Dilip Buildcon	15.8	16.3	15.6	15.9	11.9	5.2	9.6	10.0	12.5	12.2	11.1
NCC	11.1	12.3	12.0	11.2	10.7	9.6	9.6	10.5	10.3	9.7	9.3
PNC Infratech	13.7	13.8	13.4	13.9	13.9	13.0	13.0	13.1	13.3	13.2	12.1
KNR Constructions	21.3	22.0	20.2	19.0	20.8	20.5	18.9	18.3	18.1	16.8	16.5
IRB Infrastructure	30.1	29.7	33.0	30.0	31.2	45.6	29.6	28.8	30.9	28.6	31.4
HG Infra	15.3	15.9	16.5	16.2	16.5	15.9	15.6	16.4	16.0	16.1	16.2
HCC	19.0	5.4	16.4	8.6	11.2	21.0	14.8	12.7	13.3	13.8	12.6
ITD Cementation	12.2	12.5	1.8	13.7	10.3	8.9	9.9	9.3	10.1	10.8	10.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 results review for stocks under our coverage >

Figure 11: 1QFY25 results

Company	1QFY25	1QFY24	yoy %	4QFY24	qoq %
<b>IRB Infrastructure (Consolidated)</b>					
Sales (Rs m)	18,529	16,342	13.4	20,612	(10.1)
EPC segment Sales including other income (Rs m)	13,352	11,329	17.9	15,394	(13.3)
EBITDA (Rs m)	8,570	7,778	10.2	8,899	(3.7)
EBITDA margin %	46.3	47.6		43.2	
Adj. PAT (Rs m)	1,400	1,338	4.6	1,261	11.0
<b>IRB InvIT (Consolidated)</b>					
Sales (Rs m)	2,696	2,644	2.0	2,733	(1.3)
EBITDA (Rs m)	2,127	2,198	(3.2)	2,316	(8.1)
EBITDA margin %	78.9	83.1		84.7	
Adj. PAT (Rs m)	858	1,006	(14.7)	1,031	(16.8)
<b>Dilip Buildcon (Standalone)</b>					
Sales (Rs m)	23,579	26,084	(9.6)	29,308	(19.5)
EBITDA (Rs m)	2,624	3,348	(21.6)	3,524	(25.5)
EBITDA margin %	11.1	12.8		12.0	
Adj. PAT (Rs m)	474	834	(43.2)	1,074	(55.9)
<b>PNC Infratech (Standalone)</b>					
Sales (Rs m)	13,092	18,614	(29.7)	20,452	(36.0)
EBITDA (Rs m)	1,583	2,451	(35.4)	2,684	(41.0)
EBITDA margin %	12.1	13.2		13.1	
Adj. PAT (Rs m)	947	1,566	(39.5)	1,797	(47)
<b>NCC (Standalone)</b>					
Sales (Rs m)	47,133	38,383	22.8	54,460	(13)
EBITDA (Rs m)	4,396	3,806	15.5	5,097	(14)
EBITDA margin %	9.3	9.9		9.4	
Adj. PAT (Rs m)	2,007	1,623	23.7	2,439	(18)
<b>KNR Constructions (Standalone)</b>					
Sales (Rs m)	8,193	9,296	(11.9)	11,793	(31)
EBITDA (Rs m)	1,356	1,733	(21.8)	2,032	(33)
EBITDA margin %	16.6	18.6		17.2	
Adj. PAT (Rs m)	808	1,103	(26.7)	1,453	(44)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Order inflow slows down in FY24-1QFY25 >

The average OB-to-sales ratio for companies under our coverage was 1.8x, lower than that in Mar 2023 (2.8x). Order inflow (Rs344bn) in FY24 and just Rs18bn in 1QFY25 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 (2.7x) 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 12: Order inflow (construction projects) over FY19-1QFY25 for EPC companies in our coverage

(Rs bn)	Order inflow							
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	1QFY25
Dilip Buildcon	141	64	69	175	72	99	25	9
NCC	220	207	(64)	186	99	242	273	4
PNC Infratech	37	80	12	79	92	129	23	-
IRB Infrastructure	90	6	(12)	68	70	25	-	-
KNR Constructions	5	38	35	48	52	36	22	4
<b>Total</b>	<b>493</b>	<b>396</b>	<b>39</b>	<b>557</b>	<b>385</b>	<b>531</b>	<b>344</b>	<b>18</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: OB-to-sales ratio and sales growth of EPC companies in our coverage

	Order book/ Sales (x)							yoy Sales growth (%)						
	FY19	FY20	FY21	FY22	FY23	FY24	1QFY25	FY19	FY20	FY21	FY22	FY23	FY24	1QFY25
Dilip Buildcon	2.3	2.1	3.0	2.8	2.5	1.7	1.8	18	(2)	3	(2)	12	4	(10)
NCC	3.4	3.2	5.2	4.0	3.8	3.1	2.7	60	(32)	(12)	39	34	39	23
PNC Infratech	4.0	1.8	2.4	2.4	2.9	2.1	2.1	71	55	3	26	13	5	(30)
IRB Infrastructure	2.4	0.9	2.0	2.7	2.3	1.2	0.9	19	11	(25)	13	(3)	30	18
KNR Constructions	1.9	2.4	2.6	2.8	2.4	1.3	1.3	11	5	20	22	14	7	(12)
<b>Average</b>	<b>2.8</b>	<b>2.1</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>1.9</b>	<b>1.8</b>	<b>36</b>	<b>8</b>	<b>(2)</b>	<b>20</b>	<b>14</b>	<b>17</b>	<b>(2)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 14: Order inflow in 1QFY25 accounted for 2% of the order book**

(Rs bn)	Order flow	Order book	A/B (%)
	1QFY25 (A)	1QFY25 (B)	
Dilip Buildcon	9	186	5
NCC	4	526	1
PNC Infratech	-	141	-
IRB Infrastructure	-	48	-
KNR Constructions	4	49	9
<b>Total</b>	<b>18</b>	<b>950</b>	<b>2</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

**Figure 15: Percentage of OB to be funded by companies in our coverage**

(Rs bn)	Order book - FY19		Order book - 1QFY25	
	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	186	19
NCC	412	-	526	15
PNC Infratech	122	34	141	33
IRB Infrastructure	111	85	48	69
KNR Constructions	40	40	49	31
<b>Total</b>	<b>897</b>	<b>24</b>	<b>950</b>	<b>22</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

NCC, PNC Infratech and KNR Constructions are trading at a sharp premium to their six-year median EV/EBITDA while DBL trades at a 16% premium to its six-year median.

**Figure 16: Valuations of main third-party construction companies**

	EV/ EBITDA (x) for EPC segment		Premium (%) of FY25F multiple
	6-year median	FY25F	vs.
			6-year median
Dilip Buildcon	5.6	6.5	16
NCC	5.9	11.4	93
PNC Infratech	5.8	9.0	55
KNR Constructions	8.2	11.5	40
<b>Average</b>	<b>6.4</b>	<b>9.6</b>	<b>51</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Highlights of 1QFY25 results of companies in our coverage ►

**Dilip Buildcon – Weak results and guidance cut:** EBITDA declined by 22% yoy. DBL gave guidance of a 5% yoy dip in FY25F sales and 11-12% EBITDA margin. While DBL is targeting Rs150-160bn of orders in FY25F, we believe this is optimistic. Despite just Rs9.3bn of orders in 1Q, OB rose from Rs174bn (Mar 2024) to Rs186bn – implying Rs35bn of new orders. This is because from 1Q, DBL added three years of coal MDO projects to its OB (Rs24bn). OB/sales dipped from 2.5x (Mar 2023) to 1.8x (1.6x ex-MDO). Over FY19-24, average OB/sales was 2.4x and sales grew at a 3% CAGR. We forecast flat EPC sales (FY24-26F) and a 13% margin (FY26F).

**IRB Infrastructure – Slim OB; trading at 2.7x P/BV vs. 10-year median of 1.3x:** EPC sales rose by 18% yoy. EPC OB/sales ratio was 0.9x and O&M OB at Rs288bn. We believe O&M contracts can provide ~Rs18bn revenue p.a. We forecast a 17% EPC sales CAGR over FY23-26F (vs -7% CAGR over FY20-23). Considering the slim EPC OB, we believe quick order wins is imperative. IRB Infrastructure's (ex-InvIT) toll revenue increased by 4% yoy. Private InvIT's erstwhile projects' (IRB Infrastructure has a 51% stake) toll revenue declined by 4% yoy.

**PNC Infratech – Weak results & guidance:** EBITDA declined by 35% yoy. PNC Infratech expects 2QFY25F to be weak. PAT was boosted by Rs4.4bn one-off income. PNC Infratech cut FY25F sales guidance from 10% yoy in 4QFY24 con-call to (-)10% - zero yoy. It gave guidance of a 12-12.5% EBITDA margin, lower than in FY24 (13.3%). In 1QFY25, PNC Infratech had L1 status in Rs50bn of projects and it gave guidance of Rs130bn of orders in FY25F – above our estimate (Rs100bn) and the average in FY20-24 (Rs67bn). OB/sales ratio was 2.1x and including L1 projects, it was 2.8x.

**NCC – just 9% yoy FY25F EBITDA growth guidance:** EBITDA grew 16% yoy. NCC expects a 15% yoy rise in sales in FY25F & an 9.5% EBITDA margin, vs. 10% in FY24, implying a 9% yoy rise in EBITDA in FY25F, lower than the 38% yoy rise in FY24. During 1Q, NCC won orders worth just Rs4bn – a continuation of muted order growth in 2HFY24 (Rs70bn). NCC gave guidance of Rs200-220bn of orders in FY25F, implying ~25% yoy dip. OB/sales ratio declined from 3.9x (Sep 2023) to 2.7x. Over FY19-24 average OB/ sales ratio was 3.8x and sales grew at a 9% CAGR. We forecast a 7% EPC sales CAGR over FY24-26F.

**KNR Constructions – Weak order book is a cause of concern:** EPC EBITDA declined by 22% yoy & the EBITDA margin (16.5%) was lower than its three-year average (18.9%). KNR Constructions expects 2QFY25F to be weak and is hopeful of flat sales yoy in FY25F. Further, it expects a weak EBITDA margin (15-16%) in FY25F vs. 17.4% in FY24. While KNR Constructions is targeting orders worth Rs60-70bn in FY25F, over FY22-24, average order inflow per annum was just Rs30bn. Two projects of Rs12bn won in 4QFY23 have not been included in the OB, as the appointed dates are awaited. Even including these, the OB-to-sales ratio is just 1.5x. 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.

**IRB InvIT – Steady results, fairly valued:** EBITDA declined by 3% yoy. Toll revenue of five toll-based assets rose 3.7% yoy, slightly above the traffic growth of 2% yoy. Four projects have implemented tariff hike of 2.5% in Jun 2024 and the impact should be visible from 2QFY25F. Construction of three projects of IRB Infrastructure (Rs21bn cost) is expected to be completed in FY25F-26F and six months later, they would be eligible for acquisition by IRB InvIT. Based on CMP, we believe the stock trades at an internal rate of return of 10%.

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