

India

**Underweight** (no change)

**Highlighted Companies**

**KNR Constructions**

**REDUCE, TP Rs222, Rs337 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, Rs302 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, Rs434 close**

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

**Summary Valuation Metrics**

P/E (x)	Mar24-A	Mar25-F	Mar26-F
KNR Constructions	17.19	17.98	16.3
NCC	21.24	20.01	18.84
PNC Infratech	14.46	19.85	18.04

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
KNR Constructions	2.86	2.48	2.16
NCC	2.71	2.4	2.14
PNC Infratech	2.21	1.99	1.8

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
KNR Constructions	0.19%	0.19%	0.19%
NCC	0.28%	0.28%	0.3%
PNC Infratech	0.16%	0.17%	0.19%

# Constrn & Material - Overall

## 2QFY25 results preview

- We expect a 9% yoy decline in 2QFY25F EPC sales of companies in our coverage universe, barring NCC where we factor in an 8% 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.

### 2QFY25 results expectations

We expect a 9% yoy decline in EPC sales in 2QFY25F for Dilip Buildcon (DBL), PNC Infratech & KNR Constructions. We expect an 8% 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 1QFY25.

### 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 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.

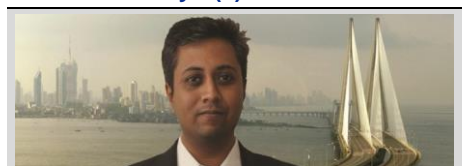
### Coverage companies - concern over slim OB-to-sales ratio

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 Construction are trading at a sharp premium to their six-year median EV/EBITDA while DBL trades at 7% premium to its six-year median. We have a REDUCE rating on NCC, KNR, 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 (2.6x FY24 P/BV). Strong order inflow in FY25F vs. our estimate is the upside risk to our REDUCE ratings.

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**Figure 1: 2QFY25F earnings of companies under our coverage universe**

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infrastructure	17,938	3	(3)	7,935	(0)	(7)	1,032	8	(26)
IRB InvT	2,758	9	2	2,234	5	5	936	6	9
Dilip Buildcon	22,151	(9)	(6)	2,547	(13)	(3)	520	(38)	10
PNC Infratech	16,027	(5)	22	1,963	(14)	24	1,250	(11)	32
NCC	48,728	9	3	4,629	(3)	5	2,008	(25)	0
KNR Constructions	8,203	(13)	0	1,312	(21)	(3)	2,008	(19)	(0)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 2QFY25 results preview

Figure 2: 2QFY25F estimates for companies under our coverage

Company	2QFY25F	2QFY24	yoy %	1QFY25	qoq %	Comments
<b>IRB Infra (Consolidated)</b>						
Sales (Rs m)	17,938	17,450	2.8	18,529	(3.2)	We estimate flat EPC sales yoy. We estimate 10% yoy rise in BOT Sales driven by traffic.
EPC segment Sales (Rs m)	11,467	11,567	(0.9)	12,165	(5.7)	
BOT segment Sales (Rs m)	6,471	5,883	10.0	6,365	1.7	
EBITDA (Rs m)	7,935	7,946	(0.1)	8,570	(7.4)	
EBITDA margin %	44.2	45.5		46.3		
Adj. PAT (Rs m)	1,032	957	7.8	1,400	(26.3)	
<b>IRB InvIT (Consolidated)</b>						
Sales (Rs m)	2,758	2,540	8.6	2,696	2.3	We expect 4.6% yoy rise in EBITDA yoy.
EBITDA (Rs m)	2,234	2,136	4.6	2,127	5.0	
EBITDA margin %	81.0	84.1		78.9		
Adj. PAT (Rs m)	936	885	5.7	858	9.1	
<b>Dilip Buildcon (Standalone)</b>						
Sales (Rs m)	22,151	24,270	(8.7)	23,579	(6.1)	We expect 9% yoy dip in Sales due to 23% yoy dip in order book (Jun 2024).
EBITDA (Rs m)	2,547	2,935	(13.2)	2,624	(2.9)	
EBITDA margin %	11.5	12.1		11.1		
Adj. PAT (Rs m)	520	833	(37.6)	474	9.8	
<b>PNC Infratech (Standalone)</b>						
Sales (Rs m)	16,027	16,930	(5.3)	13,092	22.4	We expect 5.3% yoy decline in Sales and 14% decline in EBITDA due to slim OB-to-sales of 2.1x in Jun 2024.
EBITDA (Rs m)	1,963	2,276	(13.8)	1,583	24.0	
EBITDA margin %	12.3	13.4		12.1		
Adj. PAT (Rs m)	1,250	1,398	(10.6)	947	32.0	
<b>NCC (Standalone)</b>						
Sales (Rs m)	48,728	44,826	8.7	47,133	3.4	We expect 9% yoy rise in sales and 3% decline in EBITDA due to margin decline yoy (similar to 1QFY25).
EBITDA (Rs m)	4,629	4,779	(3.1)	4,396	5.3	
EBITDA margin %	9.5	10.7		9.3		
Adj. PAT (Rs m)	2,008	2,684	(25.2)	2,007	0.0	
<b>KNR Constructions (Standalone)</b>						
Sales (Rs m)	8,203	9,415	(12.9)	8,193	0.1	We expect 13% decline in Sales and ~21% yoy decline in EBITDA due to slim OB-to-sales.
EBITDA (Rs m)	1,312	1,663	(21.1)	1,356	(3.2)	
EBITDA margin %	16.0	17.7		16.5		
Adj. PAT (Rs m)	805	999	(19.4)	808	(0.4)	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Order inflow slows in FY24-1QFY25 ▶

The average OB-to-sales ratio for companies under our coverage universe 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 an 10% EPC sales CAGR over FY24-26F.

Figure 3: Order inflow (construction projects) over FY19-1QFY25 for EPC companies in our coverage

(Rs bn)	Order inflow						
	FY19	FY20	FY21	FY22	FY23	FY24	1QFY25
Dilip Buildcon	64	69	175	72	99	25	9
NCC	207	(64)	186	99	242	273	4
PNC Infratech	80	12	79	92	129	23	-
IRB Infrastructure	6	(12)	68	70	25	-	-
KNR Constructions	38	35	48	52	36	22	4
<b>Total</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 4: 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 5: Order inflow in FY24 accounted for 2% of the order book**

(Rs bn)	Order flow 1QFY25 (A)	Order book 1QFY25 (B)	A/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 order book or OB must be funded by private road developers, similar to 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 - 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 7% premium to its six-year median.

**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	6.0	7
NCC	5.9	11.1	88
PNC Infratech	5.8	8.7	50
KNR Constructions	8.2	11.7	43
<b>Average</b>	<b>6.4</b>	<b>9.4</b>	<b>47</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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