India

Underweight *(no change)*

Highlighted Companies

IRB Infrastructure Developers

REDUCE, TP Rs40, Rs47 close

The EPC OB/sales ratio stood at 0.8x and is a cause of concern. The stock is trading at an expensive valuation of 2x FY25F P/BV vs. 10-year median of 1.3x.

KNR Constructions

REDUCE, TP Rs222, Rs312 close

Over FY19-24, the average OB/sales ratio was 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 (1.2x).

NCC

REDUCE, TP Rs150, Rs279 close

While the OB/sales (2.7x) is healthy, over FY19-24, the average OB/ sales ratio was 3.8x and sales grew at a 9% CAGR. We forecast a 7% EPC sales CAGR over FY24-26F.

Summary Valuation Metrics

P/E (x)	Mar24-A	Mar25-F	Mar26-F
IRB Infrastructure Developers	34.56	24.92	19.47
KNR Constructions	15.93	16.66	15.1
NCC	19.62	18.48	17.4

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
IRB Infrastructure Developers	2.04	1.9	1.73
KNR Constructions	2.65	2.3	2
NCC	2.5	2.22	1.98

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
IRB Infrastructure Developers	0.47%	0.47%	0%
KNR Constructions	0.2%	0.2%	0.2%
NCC	0.3%	0.3%	0.32%

Constrn & Material - Overall

Weak order book, sales & EBITDA margin

- Weak OB-to-sales (26% below Mar 2023) may lead to weak FY25F sales.
- The compression trend in EBITDA margin to add to the woes. Over 1HFY20-25, while industry sales CAGR was at 8.1%, EBITDA CAGR was lower (3.9%).
- Despite an average 20% dip in stock prices in the last three months, we maintain our Underweight rating on the sector.

Execution of infrastructure projects: 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) via internal and extra budgetary resources (IEBR) grew at a 17% CAGR (FY16-24). Project execution in the years of general elections fell by an average 5% yoy in four prior instances, independent of whether there was a change in the government or not. We expect a 5% dip in execution in FY25F. There are hopes of a revival of orders in 2HFY25F, leading to strong sales growth in FY26F. However, even factoring in a 15-20% yoy sales rise in FY26F implies 5-8% sales CAGR (FY24-26F).

Average OB-to-sales (2.16x) is 26% below Mar 2023 ratio

In 2QFY25, construction revenue of listed companies declined by 1% yoy, much below the 15% yoy growth in FY24. Ex-L&T, sales declined by 3% yoy, vs. 21% yoy rise in FY24. The industry average OB-to-sales was 2.16x, 26% lower vs. Mar 2023 & five-year average. Ex-L&T, FY24 order inflow (down 35% yoy) & 1HFY25 (down 9% yoy) were weak. We believe this will have a negative impact on FY25F sales.

Compression trend in EBITDA margin adds to woes

The FY24-2QFY25 industry EBITDA margin was at 10.1%, 156bp lower than in FY20. Ex-L&T, industry EBITDA margin was 13.5%, 300bp lower than in FY20. We believe the margin dip has a strong negative impact on EBITDA in a slim-margin sector like the construction sector. Over 1HFY20-1HFY25, while industry sales CAGR was 8.1%, EBITDA CAGR was lower (3.9%). Ex-Larsen & Toubro or L&T, while industry sales CAGR was 10.6%, EBITDA CAGR was lower (5%). In 2Q, while industry sales fell 1% yoy, EBITDA dipped 4% yoy. Ex-L&T, while industry sales fell 3% yoy, EBITDA dipped 11% yoy.

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

EPC EBITDA in 2QFY25 for companies in our coverage universe declined by 23% yoy. The average OB-to-sales ratio was 1.9x (vs. 2.8x in Mar 2023). Order inflow (Rs344bn) in FY24 and in 1HFY25 (Rs147bn) 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 Mar 2023, the latest OB-to-sales is lower for all our coverage companies.

Key stock calls: REDUCE NCC, KNR & IRB Infrastructure

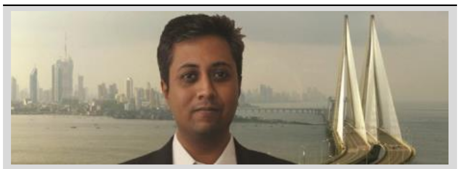
Over the last three months, the stock price of companies in our coverage universe declined by an average 20%. NCC & KNR Constructions are trading at expensive EV/ EBITDA. PNC Infratech trades at a discount and Dilip Buildcon trades at close to historic average. We have a REDUCE rating on NCC and KNR, valuing their EPC business at 6x FY26F EV/EBITDA each. We also have a REDUCE rating on IRB Infrastructure due to its rich valuation (2x FY25F P/BV). Strong order inflow in FY25F vs. our estimate is the upside risk.

Figure 1: 2QFY25 results summary

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infrastructure	15,858	-9	-14	7,667	-4	-11	449	-53	-68
IRB InvIT	2,627	3	-3	2,164	1	-3	853	-4	-1
Dilip Buildcon	21,769	-10	-8	2,221	-24	-15	312	-63	-34
PNC Infratech	11,491	-32	-12	1,336	-41	-16	809	-42	-15
NCC	44,450	-1	-6	4,012	-16	-9	1,606	-40	-20
KNR Constructions	8,560	-9	4	1,380	-17	2	935	-6	16

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Research Analyst(s)



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Weak order book, sales and EBITDA margin

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 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 the 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 PSUs via IEBR grew at just a 7% CAGR.

Figure 3: Government spending on the infrastructure sector (excluding railways) Part-1

(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 the infrastructure sector (excluding railways) Part -2

(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 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 execution prior to general elections. The decline in project execution in election years is independent of whether there was a change in the government (FY05 – National Democratic Alliance or NDA to United Progressive Alliance or UPA, FY15 – UPA to NDA) or not (FY10 – UPA, FY20 – NDA).

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 a higher contribution of private capex.

We expect a dip in execution in FY25F. There are hopes of a revival of orders in 2HFY25, leading to strong execution in FY26F. However, even factoring in a 15-20% yoy sales growth in FY26F implies just a 5-8% sales CAGR (FY24-26F).

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	
Total	**753**	**820**	**864**	**955**	**1,169**	**1,138**	**1,018**	**1,261**	**1,462**	**1,673**	9
yoy growth %	**3**	**9**	**5**	**11**	**22**	**-3**	**-11**	**24**	**16**	**14**	
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 + IEBR for PSUs was Rs7.4tr (2% more than in FY24 Budget and 6% more than in 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 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 road and railway sectors (73% of the 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 at 2.16x is weak (26% below Mar 2023 & five-year average), which is likely to lead to weak execution & EBITDA margin contraction in FY25F

In 2QFY25, sales of listed companies declined 1% yoy, vs. a 15% yoy rise in FY24. Ex-L&T, sales declined by 3% 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 elections (FY09,14,19). Order flow in 2QFY25 rose by 13% yoy, but, ex-L&T, order inflow declined by 3% yoy. OB in 2QFY25 was like that in Mar 2023, but, ex-L&T, 2QFY25 OB was 11% 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	2QFY25
Sales (Rs bn)												
Industry	514	626	349	668	513	751	630	831	761	912	387	373
yoy growth %			(32)	7	47	12	23	11	21	10	1	(1)
L&T Domestic construction	335	431	214	452	313	509	392	543	470	567	230	234
yoy growth %			(36)	5	46	13	26	7	20	4	(3)	1
Others	179	195	136	215	201	242	238	289	291	345	157	140
yoy growth %			(24)	11	48	12	18	19	23	20	7	(3)
Order flow (Rs bn)												
Industry	691	544	485	1,222	419	1,006	740	1,212	840	791	409	469
yoy growth %			(30)	125	(14)	(18)	77	20	14	(35)	(4)	13
L&T Domestic construction	520	369	227	843	268	614	475	741	553	597	326	291
yoy growth %			(56)	129	18	(27)	77	21	16	(19)	2	25
Others	172	175	258	379	151	392	266	471	288	194	83	178
yoy growth %			50	116	(42)	4	76	20	8	(59)	(23)	(2)
Order book (Rs bn)												
Industry	3,486	3,288	3,395	3,871	3,782	4,010	4,098	4,473	4,507	4,390	4,440	4,473
yoy growth %			(3)	18	11	4	8	12	10	(2)	(1)	(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	3,049
yoy growth %			(4)	13	12	1	5	10	9	3	5	5
Others	1,125	999	1,122	1,285	1,235	1,386	1,414	1,596	1,593	1,441	1,388	1,424
yoy growth %			(0)	29	10	8	14	15	13	(10)	(11)	(11)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The Sep 2024 OB-to-sales (2.67x) was 13% below that in Mar 2023 & five-year average. Ex-L&T, the OB-to-sales ratio was at 2.22x and the decline was sharper (27%/ 24% below Mar 2023/ five-year average, respectively). **The average OB-to-sales ratio was at 2.16x and was 26% lower vs. Mar 2023 and 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	2QFY25	% 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	2.67	(12.6)
L&T Dom. construction	2.99	3.53	3.89	3.33	3.19	2.98	3.08	2.88	2.84	2.96	2.96	(3.9)
Others	2.67	3.40	3.66	2.97	3.13	2.95	3.03	2.75	2.26	2.15	2.22	(26.8)
Dilip Buildcon	2.12	2.87	2.98	2.38	2.84	2.75	2.51	2.11	1.65	1.81	1.73	(31.1)
NCC	3.26	4.18	5.31	4.60	3.96	3.39	3.78	3.92	3.11	2.71	2.71	(28.4)
PNC Infratech	1.81	1.57	2.36	2.26	2.36	1.78	2.92	2.44	2.08	2.06	3.16	8.3
KNR Constructions	2.33	3.70	2.65	2.10	2.75	2.31	1.91	1.46	1.34	1.28	1.17	(38.7)
IRB Infrastructure	0.91	1.21	2.03	1.45	2.43	2.21	2.12	1.65	1.06	0.86	0.74	(64.9)
HG Infra	3.23	3.29	2.79	2.00	2.21	2.88	2.89	2.25	2.43	2.92	2.99	3.6
HCC	4.59	7.14	6.90	4.60	3.42	2.79	2.83	2.30	2.08	1.88	1.90	(32.8)
ITD Cementation	5.48	6.54	5.31	4.05	4.78	5.77	4.29	3.57	2.59	2.24	2.08	(51.5)
Average OB/ Sales	**2.97**	**3.78**	**3.80**	**2.97**	**3.11**	**2.98**	**2.92**	**2.51**	**2.13**	**2.08**	**2.16**	**(26.1)**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Ex L&T, we believe the weak FY24 order inflow (down 35% yoy) & 1HFY25 (down 9% 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%.

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

2H as a % of full year	FY20	FY21	FY22	FY23	FY24
Sales					
Industry	55	66	59	57	55
L&T Dom. construction	56	68	62	58	55
Others	52	61	55	55	54
Order flow					
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 FY24-2QFY25 industry EBITDA margin was 10.1%, 156bp lower than in FY20. Ex-L&T, industry EBITDA margin was 13.5%, 300bp lower than in FY20. We believe the margin dip has a strong negative impact on EBITDA in a slim-margin sector like the EPC sector.

Over 1HFY20-1HFY25, while industry sales CAGR was 8.1%, EBITDA CAGR was lower (3.9%). Ex-L&T, while industry sales CAGR was 10.6%, EBITDA CAGR was lower (5%). In 2QFY25, while industry sales dipped 1% yoy, EBITDA declined by 4% yoy. Ex-L&T, while industry sales dipped 3% yoy, EBITDA declined by 11% yoy.

Figure 10: EBITDA and EBITDA margin of listed players

	1HFY20	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	2HFY24	1QFY25	2QFY25
EBITDA (Rs bn)												
Industry	61	72	39	82	58	84	64	87	75	96	38	36
yoy growth %			(37)	13	51	3	10	3	17	11	1	(4)
L&T Domestic construction	31	41	17	48	28	49	32	48	35	49	17	18
yoy growth %			(46)	17	69	1	16	(1)	7	2	(0)	3
Others	30	31	22	34	30	36	32	38	40	47	21	18
yoy growth %			(27)	8	37	5	5	8	27	22	3	(11)
EBITDA margin %												
Industry	11.9	11.6	11.1	12.2	11.3	11.2	10.2	10.4	9.9	10.5	9.8	9.6
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	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	13.0
Dilip Buildcon	15.8	16.3	15.6	15.9	11.9	5.2	9.6	10.0	12.5	12.2	11.1	10.2
NCC	11.1	12.3	12.0	11.2	10.7	9.6	9.6	10.5	10.3	9.7	9.3	9.0
PNC Infratech	13.7	13.8	13.4	13.9	13.9	13.0	13.0	13.1	13.3	13.2	12.1	11.6
KNR Constructions	21.3	22.0	20.2	19.0	20.8	20.5	18.9	18.3	18.1	16.8	16.5	16.1
IRB Infrastructure	30.1	29.7	33.0	30.0	31.2	45.6	29.6	28.8	30.9	28.6	31.4	30.8
HG Infra	15.3	15.9	16.5	16.2	16.5	15.9	15.6	16.4	16.0	16.1	16.2	16.4
HCC	19.0	5.4	16.4	8.6	11.2	21.0	14.8	12.7	13.3	13.8	12.6	17.8
ITD Cementation	12.2	12.5	1.8	13.7	10.3	8.9	9.9	9.3	10.0	10.8	10.0	10.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 results review for stocks under our coverage ›

Figure 11: 2QFY25 results

Company	2QFY25	2QFY24	yoy %	1QFY25	qoq %
IRB Infrastructure (Consolidated)					
Sales (Rs m)	15,858	17,450	(9.1)	18,529	(14.4)
EPC segment Sales including other income (Rs m)	10,717	12,862	(16.7)	13,352	(19.7)
BOT segment Sales including other income (Rs m)	5,999	5,883	2.0	6,365	(5.8)
EBITDA (Rs m)	7,667	7,946	(3.5)	8,570	(10.5)
EBITDA margin %	48.3	45.5		46.3	
Adj. PAT (Rs m)	449	957	(53.1)	1,400	(67.9)
IRB InvIT (Consolidated)					
Sales (Rs m)	2,627	2,540	3.4	2,696	(2.6)
EBITDA (Rs m)	2,164	2,136	1.3	2,228	(2.9)
EBITDA margin %	82.4	84.1		78.9	
Adj. PAT (Rs m)	853	885	(3.6)	858	(0.6)
Dilip Buildcon (Standalone)					
Sales (Rs m)	21,769	24,270	(10.3)	23,579	(7.7)
EBITDA (Rs m)	2,221	2,935	(24.3)	2,624	(15.4)
EBITDA margin %	10.2	12.1		11.1	
Adj. PAT (Rs m)	312	833	(62.5)	474	(34.2)
PNC Infratech (Standalone)					
Sales (Rs m)	11,491	16,930	(32.1)	13,092	(12.2)
EBITDA (Rs m)	1,336	2,276	(41.3)	1,583	(15.6)
EBITDA margin %	11.6	13.4		12.1	
Adj. PAT (Rs m)	809	1,398	(42.1)	947	(15)
NCC (Standalone)					
Sales (Rs m)	44,450	44,826	(0.8)	47,133	(6)
EBITDA (Rs m)	4,012	4,779	(16.0)	4,396	(9)
EBITDA margin %	9.0	10.7		9.3	
Adj. PAT (Rs m)	1,606	2,684	(40.2)	2,007	(20)
KNR Constructions (Standalone)					
Sales (Rs m)	8,560	9,415	(9.1)	8,193	4
EBITDA (Rs m)	1,380	1,663	(17.0)	1,356	2
EBITDA margin %	16.1	17.7		16.6	
Adj. PAT (Rs m)	935	999	(6.4)	808	16

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Order inflow slows down in FY24-1HFY25 ›

The average OB-to-sales ratio for companies under our coverage was 1.9x, lower than that in Mar 2023 (2.8x). Order inflow (Rs344bn) in FY24 and just Rs147bn in 1HFY25 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 12: Order inflow (construction projects) over FY19-1HFY25 for EPC companies in our coverage

	Order inflow						
(Rs bn)	FY19	FY20	FY21	FY22	FY23	FY24	1HFY25
Dilip Buildcon	64	69	175	72	99	25	21
NCC	207	(64)	186	99	242	273	52
PNC Infratech	80	12	79	92	129	23	66
IRB Infrastructure	6	(12)	68	70	25	-	-
KNR Constructions	38	35	48	52	36	22	8
Total	**396**	**39**	**557**	**385**	**531**	**344**	**147**

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	2QFY25	FY19	FY20	FY21	FY22	FY23	FY24	1HFY25
Dilip Buildcon	2.3	2.1	3.0	2.8	2.5	1.7	1.7	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	10
PNC Infratech	4.0	1.8	2.4	2.4	2.9	2.1	3.2	71	55	3	26	13	5	(31)
IRB Infrastructure	2.4	0.9	2.0	2.7	2.3	1.2	0.8	19	11	(25)	13	(3)	30	(1)
KNR Constructions	1.9	2.4	2.6	2.8	2.4	1.3	1.2	11	5	20	22	14	7	(10)
Average	**2.8**	**2.1**	**3.0**	**2.9**	**2.8**	**1.9**	**1.9**	**36**	**8**	**(2)**	**20**	**14**	**17**	**(8)**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Order inflow in 1HFY25 accounted for 15% of the order book

(Rs bn)	Order flow 1HFY25 (A)	Order book 1HFY25 (B)	A/B (%)
Dilip Buildcon	21	186	11
NCC	52	526	10
PNC Infratech	66	141	47
IRB Infrastructure	-	48	-
KNR Constructions	8	49	16
Total	**147**	**950**	**15**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Despite the decline in CMP in the last three months, most stocks are trading at a premium to six-year median EV/EBITDA ›

Over the last three months, the stock prices of companies in our coverage have declined by an average 20%. Despite the decline, NCC and KNR Constructions are trading at expensive EV/ EBITDA valuations. PNC Infratech is trading at a discount to the historic average and DBL is trading at close to historic average.

Figure 15: Change in CMP in the last three months %

	Three-month change in CMP
IRB Infra	(27)
Dilip Buildcon	(15)
PNC Infra	(36)
NCC	(15)
KNR Constructions	(9)
Average	**(20)**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Valuations of main third-party construction companies

	EV/ EBITDA (x) for EPC segment		Premium (%) of FY25F multiple vs.
	6-year median	FY26F	6-year median
Dilip Buildcon	5.6	5.3	(5)
NCC	6.1	9.4	54
PNC Infratech	5.9	4.8	(19)
KNR Constructions	8.7	9.2	6
Average	**6.6**	**7.2**	**9**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Highlights of 2QFY25 results of companies in our coverage ›

Dilip Buildcon – EPC EBITDA declines by 24% yoy, weak order inflow: Dilip Buildcon or DBL has given guidance of a 10% yoy dip in FY25F sales and a 11-12% EBITDA margin. While DBL is targeting Rs150bn of orders in FY25F, we believe this is optimistic. The OB/sales ratio dipped from 2.5x (Mar 2023) to 1.7x. 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; weak toll collection: EPC sales dipped 17% yoy. EPC OB-to-sales ratio was 0.8x and O&M OB stood at Rs286bn. We forecast a 17% EPC sales CAGR over FY23-26F (vs -7% CAGR over FY20-23). We believe that order wins are imperative. IRB Infrastructure's (ex-InvIT) toll revenue rose by 2% yoy. Private InvIT's erstwhile projects' (IRB Infrastructure has a 51% stake) toll revenue rose by just 1% yoy.

PNC Infratech – Dismal results – awaiting resolution with MORTH: EPC EBITDA declined by 41% yoy. PNC Infratech gave guidance of a 15-20% yoy decline in FY25F sales. In 1HFY25, the company won orders worth Rs66.3bn. Despite the disqualification of PNC Infratech by MoRTH in Oct 2024 from participating in any tender of MORTH/ NHAI/ NHIDCL for one year, the company gave guidance of Rs150bn of orders in FY25F – much above the average in FY20-24 (Rs67bn) and our estimate (Rs68bn).

NCC – 16% EBITDA dip yoy & just 8% yoy FY25 EBITDA growth guidance: NCC expects a 15% yoy rise in sales in FY25F & 9.4% EBITDA margin. This implies an 8% yoy rise in EBITDA (vs. 38% yoy rise in FY24). During 1H, NCC won orders worth Rs52bn and has L1 status in projects worth Rs90bn. NCC maintained its guidance of Rs200-220bn (25% below FY24). The OB/sales ratio declined from 3.9x (Sep 2023) to 2.7x (Sep 2024). Over FY19-24, the OB/ sales ratio was 3.8x and sales grew at a 9% CAGR.

KNR Constructions – Weak results, guidance and order book: EPC EBITDA declined by 17% yoy. The EBITDA margin (16.1%) was lower than its three-year average (18.9%). KNR Constructions gave guidance of ~10% yoy sales decline in FY25F and ~15% EBITDA margin (vs. 17.4% in FY24). The OB/sales ratio was just 1.2x. While the company is targeting orders worth Rs60-70bn in FY25F, over FY22-24, the average order inflow per annum was just Rs30bn. Over FY19-24, the average OB/sales ratio was 2.2x and sales grew at a 15% CAGR.

IRB InvIT – Muted toll growth due to tepid tariff rise: EBITDA rose by just 1% yoy. Gross toll revenue for five toll-based assets rose by 5% yoy, like traffic growth (4%). Four projects have implemented a tariff hike of 2.5% in Jun 2024. 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 11.5%.

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