

India

Overweight *(no change)*

Highlighted Companies

Dilip Buildcon Ltd

ADD, TP Rs555, Rs432 close

In 2QFY21, DBL received orders worth Rs96bn and DBL's order book (OB) rose to Rs250bn (2.9x sales). Hybrid annuity model (HAM) projects comprised ~60% of its 1HFY21 OB, implying DBL will have to fund 36% of its 1HFY21 OB.

NCC Ltd

ADD, TP Rs70, Rs61 close

Rs132bn of order cancellations led to net order flow of (-)Rs61bn in FY20. Order flow picked up in 1HFY21 (Rs56bn) and OB/sales was 4.2x. The bulk of the current OB is active.

IRB Infrastructure Developers Ltd

ADD, TP Rs160, Rs119 close

The thin EPC OB of Rs51bn (1.3x trailing 12-month EPC sales) necessitates new orders. We believe the funds infused by GIC (Rs40bn) will ensure leverage is within reasonable bounds and enable IRB to pursue new build-operate-transfer projects.

Summary Valuation Metrics

P/E (x)	Mar21-F	Mar22-F	Mar23-F
Dilip Buildcon Ltd	14.4	10.1	8.7
NCC Ltd	17.7	10.4	9.7
IRB Infrastructure Developers Ltd	-9.6	58.4	6.2

P/BV (x)	Mar21-F	Mar22-F	Mar23-F
Dilip Buildcon Ltd	1.5	1.3	1.2
NCC Ltd	0.7	0.7	0.6
IRB Infrastructure Developers Ltd	0.7	0.7	0.7

Dividend Yield	Mar21-F	Mar22-F	Mar23-F
Dilip Buildcon Ltd	0.3%	0.3%	0.3%
NCC Ltd	0.3%	0.5%	0.6%
IRB Infrastructure Developers Ltd	4.2%	4.2%	4.2%

Construction

3QFY21F results preview

- With on average 3x order book (OB)/ sales in 1HFY21, companies in our coverage have to fund 27% of their order books – like in Mar 2019.
- We expect a return to normalcy in 3QFY21F for the engineering, procurement and construction (EPC) segment after 1HFY21 was marred by COVID-19.
- We forecast flat yoy EPC sales in 3QFY21F for the companies in our coverage.
- We maintain an Overweight rating on the construction sector. Our top picks are Dilip Buildcon and IRB Infrastructure.

3QFY21F results expectations

Since Mar 2020, order flow has picked up (Rs287bn in 1HFY21), resulting in average OB/sales of 3x in 1HFY21. We believe this augurs well for sales growth in 2HFY21F and FY22F. The companies in our coverage have to fund 27% of 1HFY21 OB, as it did in Mar 2019. 1HFY21 was marred by COVID-19 but we expect a return to normalcy in 3QFY21F for the EPC segment, forecasting flat yoy EPC sales in 3QFY21F for the companies in our coverage. For toll-based assets, we forecast 1-2% yoy growth in traffic.

Trading at a discount to their history, execution can lead to re-rating

The main third-party EPC companies (Dilip Buildcon [DBL], PNC Infratech [PNC], Nagarjuna Construction Company [NCC]) are trading at an average discount of 25% to their three-year average EV/EBITDA. We believe 2HFY21F-FY22F sales growth can re-rate the EV/EBITDA close to historical levels. DBL and NCC have the highest target EPC segment enterprise value (EV) as a proportion of overall target equity valuation. Thus, a re-rating in the EV/ EBITDA multiple and/ or a strong financial performance can have the highest impact on DBL and NCC.

Maintain Overweight rating on sector; top picks are DBL, IRB Infra

Dilip Buildcon: In 2QFY21, DBL received orders worth Rs96bn and OB rose to Rs250bn (2.9x sales). HAM projects comprise ~60% of its OB, implying DBL will have to fund 36% of its 1HFY21 OB. 60% of its OB is under construction and augurs well for DBL's project execution in 2HFY21F. **IRB Infrastructure:** The termination of two HAM projects (Rs35bn) in 3QFY20 dented the EPC OB. The thin 1HFY21 EPC OB of Rs51bn (1.3x trailing 12 month [TTM] EPC sales) necessitates new orders. We believe GIC's infusion of funds (Rs40bn) in CY20 will ensure that leverage is within reasonable bounds and enable IRB to pursue new BOT projects. Difficulties in financial closure of new HAM projects and slowdown in project execution are key risks for the sector.

Analyst(s)



Rajarshi MAITRA

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

Dipen VAKIL

T (91) 22 4161 1551

E dipen.vakil@incredcapital.com

Figure 1: 3QFY21F estimates for companies under our coverage

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	10,505	(40)	(6)	4,845	(32)	(13)	(641)	na	na
IRB InvT	3,411	6	19	2,729	3	19	915	61	94
Dilip Buildcon	24,424	3	27	4,030	(4)	32	1,123	(9)	138
Ashoka Buildcon	10,327	5	18	1,301	5	(1)	1,036	21	(1)
PNC Infra	12,180	0	16	1,644	(4)	16	910	18	31
NCC	20,973	(1)	36	2,412	(4)	15	674	(49)	59

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

3QFY21F results preview

Figure 2: 3QFY21F estimates for companies under our coverage

Company	3QFY21F	3QFY20	yoy %	2QFY21	qoq %	Comments
IRB Infra (Consolidated)						
Sales (Rs m)	10,505	17,426	(39.7)	11,233	(6.5)	We estimate 56% yoy decline in EPC sales as order book cover was just 1.3x (Sep 20). We expect growth in BOT segment qoq to be driven by traffic growth
EPC segment Sales (Rs m)	6,200	14,068	(55.9)	7,775	(20.3)	
BOT segment Sales (Rs m)	4,305	3,833	12.3	3,913	10.0	
EBITDA (Rs m)	4,845	7,137	(32.1)	5,550	(12.7)	
EBITDA margin %	46.1	41.0		49.4		
Adj. PAT (Rs m)	(641)	1,597	na	11	na	
IRB InvIT (Consolidated)						
Sales (Rs m)	3,411	3,233	5.5	2,859	19.3	We expect strong qoq growth in Sales driven by return to normalcy of traffic. On a yoy basis we expect 5.5% growth in Sales driven mainly by tariff hikes
EBITDA (Rs m)	2,729	2,653	2.9	2,285	19.4	
EBITDA margin %	80.0	82.1		79.9		
Adj. PAT (Rs m)	915	568	61.1	470	94.5	
Dilip Buildcon (Standalone)						
Sales (Rs m)	24,424	23,810	2.6	19,252	26.9	We estimate 2.6% yoy rise in revenue as operations return to normalcy post the impact of Covid 19. Order book cover was 2.9x in Sep 20 vs. 2x in Jun 20
EBITDA (Rs m)	4,030	4,201	(4.1)	3,060	31.7	
EBITDA margin %	16.5	17.6		15.9		
Adj. PAT (Rs m)	1,123	1,230	(8.7)	473	137.6	
Ashoka Buildcon (Standalone)						
Sales (Rs m)	10,327	9,836	5.0	8,775	17.7	We estimate 5% yoy rise in EPC sales as operations return to normalcy post the impact of Covid 19. Order book cover was healthy in 2QFY21 (2.5x)
EBITDA (Rs m)	1,301	1,243	4.6	1,309	(0.6)	
EBITDA margin %	12.6	12.6		14.9		
Adj. PAT (Rs m)	1,036	855	21.1	1,047	(1.1)	
PNC Infra (Standalone)						
Sales (Rs m)	12,180	12,180	-	10,535	15.6	We estimate flat EPC Sales yoy as operations return to normalcy post the impact of Covid 19. Order book cover including recently won projects was healthy at 3.6x in 2QFY21
EBITDA (Rs m)	1,644	1,712	(4.0)	1,421	15.7	
EBITDA margin %	13.5	14.1		13.5		
Adj. PAT (Rs m)	910	771	17.9	693	31.3	
NCC (Standalone)						
Sales (Rs m)	20,973	21,172	(0.9)	15,408	36.1	We estimate flat EPC Sales yoy as operations return to normalcy post the impact of Covid 19. Order book cover was the strongest among peers (4.2x in 2QFY21)
EBITDA (Rs m)	2,412	2,500	(3.5)	2,098	15.0	
EBITDA margin %	11.5	11.8		13.6		
Adj. PAT (Rs m)	674	1,332	(49.4)	424	59.2	

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

Order flow picked up in 1HFY21 after a lull in FY20 ▶

After a strong order flow in FY18-19, the net order flow plummeted in FY20 to Rs44bn (90% yoy decline) for EPC companies in our coverage, partly due to order cancellations in FY20 for NCC (Rs132bn) and IRB Infra (Rs35bn). Adjusted for order cancellations, FY20 order flow was Rs211bn (50% yoy decline).

For EPC companies in our coverage, sales grew 40% yoy in FY19 due to strong order book to sales in FY18 (average 3.6x) and healthy order flow in FY19. In FY20, sales declined 5% yoy as order flow dried up. OB to sales declined to just 2.2x in FY20. Since Mar 2020, order flow has picked up (Rs287bn in 1HFY21). As a result, average OB to sales for companies under our coverage was 3x in 1HFY21. We believe this augurs well for growth in 2HFY21F and for FY22F sales.

Considering IRB Infra's thin OB to sales in 1HFY21 compared to the other companies in our coverage, we believe new orders can have the highest positive impact on EPC segment financials for IRB Infra.

Figure 3: Order flows over FY18 to 1HFY21 for EPC companies in our coverage **Figure 4: OB to sales and sales growth for EPC companies in our coverage**

(Rs bn)	Order inflow				Order book/ Sales (x)				Sales growth (%)		
	FY18	FY19	FY20	YTD FY21	FY18	FY19	FY20	1HFY21F	FY19	FY20	
Dilip Buildcon	141	64	69	97	Dilip Buildcon	3.1	2.3	2.1	2.9	18	(2)
NCC	220	207	(64)	55	NCC	4.3	3.4	3.2	4.2	60	(32)
PNC Infra	37	80	12	91	PNC Infra	4.1	4.0	1.8	3.6	71	55
IRB Infra	90	6	(12)	19	IRB Infra	3.9	2.4	0.9	1.2	19	11
Ashoka Buildcon	13	64	39	24	Ashoka Buildcon	2.4	2.2	2.1	2.5	56	3
Total	501	421	44	287	Total	3.6	2.9	2.2	3.0	40	(5)

SOURCES: EIP RESEARCH, COMPANY REPORTS

SOURCES: EIP RESEARCH, COMPANY REPORTS

Companies under our coverage to fund 27% of their 1HFY21 OBs, similar to FY19 (24%)

Around 40% of 1HFY21 OB for the companies in our coverage are hybrid annuity model projects. The concessionaire bears 60% of the HAM project costs and the project awarding authority bears the balance 40%. Five percent of 1HFY21 OBs are build-operate-transfer (BOT) projects, which the concessionaire has to fund entirely. As a result, the companies in our coverage have to fund 27% of their 1HFY21 OBs.

Figure 5: Percentage of OBs to be funded by the companies in our coverage

(Rs bn)	Order book FY19		Order book 1HFY21	
	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	250	36
NCC	412	-	294	-
PNC Infra	122	34	158	41
IRB Infra	111	85	51	86
Ashoka Buildcon	84	28	93	28
Total	940	24	846	27

SOURCES: EIP RESEARCH, COMPANY REPORTS

Impact of re-rating in EV/EBITDA multiple and/ or sharp EPC sales growth ▶

Among the companies we cover, DBL and NCC have the highest target EPC segment enterprise value (EV) as a proportion of overall Mar 2021F target equity valuation. Thus, a re-rating in the EV/ EBITDA multiple and/ or a sharp EPC sales growth of DBL and NCC can have the highest positive impact on our Mar 2021F target equity valuation of DBL and NCC.

Figure 6: EPC segment's target EV as a proportion of our target equity valuation for Mar 21F

	FY22F EV/ EBITDA target multiple (x)	EPC segment target EV (Rs bn)	EPC Target EV/ target equity valuation %
Dilip Buildcon	5.0	89	117
NCC	5.0	51	120
PNC Infra	6.0	44	90
IRB Infra	3.5	39	69
Ashoka Buildcon	3.5	19	70

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

EPC sector's current EV/EBITDA FY22F is at a discount to historical levels ▶

The main third-party EPC companies in our coverage (DBL, PNC, NCC) are trading at an average discount of 25% to their three-year average EV/EBITDA. We believe strong EPC sales growth in 2HFY21F-FY22F can re-rate the valuation multiple to close to historical levels for the companies in our coverage.

Figure 7: Valuations of main third-party construction companies

	EV/ EBITDA (x) for EPC segment			Discount of current FY22F multiple from 3 yr average (%)
	5 yr average	3 yr average	Current FY22F	
Dilip Buildcon	5.3	5.3	3.8	28
NCC	6.9	6.5	4.0	38
PNC Infra	7.8	6.0	5.4	10
Average	6.7	5.9	4.4	25

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.