

India

**Neutral** (no change)**Highlighted Companies****Dilip Buildcon Ltd****ADD, TP Rs350, Rs215 close**

An uptick in the EBITDA margin is key for a rerating. We believe DBL trades at trough valuation (standalone 3x FY24F EV/EBITDA vs. five-year median of 5.9x).

**KNR Constructions Ltd****REDUCE, TP Rs235, Rs242 close**

We believe KNR trades at an expensive valuation (standalone 7.9x FY24F EV/EBITDA vs. five-year median of 7.3x), especially considering the slim order book or OB and likely weak order inflow in FY24F.

**NCC Ltd****REDUCE, TP Rs104, Rs126 close**

We believe NCC trades at an expensive valuation (standalone 6.5x FY24F EV/EBITDA vs. five-year median of 6.1x).

**Summary Valuation Metrics**

P/E (x)	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon Ltd	-5.55	-2286.73	16.44
KNR Constructions Ltd	18.61	15.51	12.19
NCC Ltd	15.88	12.76	10.33

**P/BV (x)**

	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon Ltd	0.89	0.79	0.75
KNR Constructions Ltd	2.93	2.48	2.07
NCC Ltd	1.37	1.28	1.14

**Dividend Yield**

	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon Ltd	0.06%	0.56%	0.56%
KNR Constructions Ltd	0.12%	0.26%	0.26%
NCC Ltd	1.91%	0.43%	0.54%

# Construction

## Execution may hit a speed bump in FY25F

- Infrastructure execution is likely to hit a speed bump in FY25F (post 2024 general elections). We believe the awarding of projects will peter out in FY24F.
- The downtrend in EBITDA margin indicates heightened competition.
- We have an ADD rating on Dilip Buildcon, a HOLD rating on IRB Infra, IRB InvIT, PNC Infra, and a REDUCE rating on NCC and KNR Constructions.

### Infra execution: Likely speed bump in FY25F (post general elections)

Budgetary support accounted for 74% of the total spending on government's infrastructure projects in FY23RE. Government capex on infrastructure via (a) budgetary support, and (b) investment in public sector undertakings (PSUs) via internal and extra budgetary resources (IEBR) grew at a 15% CAGR (FY16-23). Project execution in the years of general elections declined by an average 5% yoy in four prior instances. This was independent of whether there was a change in the government or not. The next general elections are scheduled in May 2024. We expect a strong execution in FY24F, followed by a dip in growth in FY25F.

### Downtrend in EBITDA margin indicates heightened competition

Despite volatility in the prices of raw materials (cement, diesel, steel, bitumen), the EBITDA margin of companies was steady over FY21-23 as construction contracts have an escalation clause, whereby raw material price volatility is borne by the project-awarding entity. However, the EBITDA margin (excluding DBL's case) has trended downwards by 170bp over FY20-23, possibly due to a rise in competition.

### Roads sector: Strong orders in FY22, sharp rise in project cost

During FY19-21, road projects awarded lagged execution. It is encouraging that project awarding/execution stood at 122% in FY22. The expected expenses for the Bharatmala project have increased from Rs199m/km to Rs300m/km. We estimate a total cost of Rs10.6tr for 34.8kkm, and Rs7tr for the remaining Bharatmala project (23kkm). Based on the average funding over the last three years (Rs1.4tr p.a.), we believe it would take five years to complete the Bharatmala project.

### Reasonable OB but slow project awards in FY24F is area of concern

The average OB-to-sales ratio for companies under our coverage is 2.8x, like the last six years' average. 20% of the latest OB must be funded by private players, like in FY19 (24%). Order flow in FY23 accounts for 52% of the OB. Based on current OB and HAM projects, we expect net debt/ EBITDA (standalone) to be within a reasonable range (FY24F-25F). We factor in a 9% average EPC sales CAGR (FY23-25F) vs. a 10% CAGR over FY20-23.

### Stock ratings: ADD (DBL), HOLD (IRB, PNC), REDUCE (KNR, NCC)

We have used EV/EBITDA multiple to value the EPC segment. We have a REDUCE rating on NCC and KNR Constructions, valuing their EPC business at 6x/7x FY25F EV/EBITDA, respectively. We have a HOLD rating on IRB Infra, valuing its EPC business at 4x FY25F EV/EBITDA, on PNC Infra as well, valuing its EPC business at 6x EV/EBITDA, and on IRB InvIT too. We have an ADD rating on Dilip Buildcon, valuing its EPC business at 5x FY25F EV/EBITDA. Strong order flow in FY24F vs. our estimates is the upside risk to REDUCE/HOLD ratings.

**Analyst(s)****Rajarshi MAITRA**

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

**Figure 1: Target valuations**

	Bloomberg ticker	Rating	Target Price (Rs)	Upside (%)	Target EPC segment EV/ EBITDA (x) FY25F
NCC	NJCC IN	REDUCE	104	(17)	6.0
Dilip Buildcon	DBL IN	ADD	350	62	5.0
IRB Infra	IRB IN	HOLD	30	7	4.0
PNC Infra	PNCL IN	HOLD	337	6	6.0
IRB InvIT	IRBINVIT IN	HOLD	73	1	na
KNR Construction	KNRC IN	REDUCE	235	(4)	7.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Execution may hit a speed bump in FY25F

**Infrastructure spending trend (FY05-23): We expect project execution to face a speed bump in FY25F (post 2024 general elections) »**

**Budget support is imperative for spending on infrastructure – it accounts for 74% of the total spending on government infrastructure projects in FY23RE:** Government capex on infrastructure via (a) budgetary support, and (b) investment in PSUs via internal and extra budgetary resources (IEBR) has grown at a 15% CAGR (FY16-23). Government capex on infrastructure via budgetary support grew at a 28% CAGR (FY16-23) while investment in PSUs via IEBR grew at just 1% CAGR. Thus, the proportion of funding for infrastructure spending via budgetary support increased from 35% in FY16 to 74% in FY23RE.

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

(yoy growth %)	FY17	FY18	FY19	FY20	FY21	FY22	FY23 RE	FY24 BE	CAGR FY16-23
Total	20	11	31	(14)	13	20	31	28	15
Revenue Expenditure	6	21	0	3	12	60	10	8	15
Capital Expenditure	38	6	26	9	45	18	68	39	28
Investment in PSU - IEBR	16	10	48	(31)	(13)	1	(7)	17	1
Capital + Investment in PSU - IEBR	23	9	40	(17)	13	11	39	33	15

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

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

**Spending on roads and railways was at 75.9% of overall spending on infrastructure in FY23RE vs. 60.8% in FY16:** Over FY16-23RE, the share of government spending on roads increased by 1,060bp while that for railways increased by 460bp. The main laggard was the power sector, whose share declined by 1,850bp.

**Figure 3: Break-up of sector-wise percentage contribution to capital + investment in PSU – IEBR over FY16-23RE**

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23 RE
Railways	33.3	33.7	25.3	35.3	25.3	35.9	33.1	37.9
Roads	27.5	29.8	37.4	34.8	45.8	43.5	45.5	38.0
Power ex-renewable	28.2	27.2	22.6	20.6	20.5	13.4	13.0	9.7
Renewable energy	3.1	3.5	3.9	2.8	3.4	2.7	4.7	5.1
Civil aviation	2.9	2.1	3.3	2.4	0.0	0.0	-	0.8
Telecom	4.0	2.5	5.9	3.0	4.0	3.6	2.7	7.8
Shipping	1.0	1.3	1.7	1.1	1.0	0.8	1.0	0.7

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

Note: Railway budget was included in the Union budget from FY16. Hence, for comparison over FY04-23, we have used the numbers excluding the spending on railways.

Government capex on infrastructure via (a) budgetary support, and (b) investment in PSUs via IEBR has grown at a 13% CAGR (FY04-23). Budgetary support for government capex on infrastructure (excluding railways) grew at a 23% CAGR (FY04-23) while investment in PSUs via IEBR grew at just a 7% CAGR.

**Figure 4: Spending by government on the 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 PSU - IEBR	(14)	74	14	26	8	(5)	(6)	14	(3)	30
Capital + Investment in PSU - IEBR	(7)	65	7	24	9	(2)	1	9	5	29

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

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

**Figure 5: Spending by government on the infrastructure sector (excluding railways)**

(yoy growth %)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23 RE	FY24BE
Total ex Railways	(2)	35	18	21	17	(4)	1	28	22	23
Revenue Expenditure	12	28	6	18	0	3	11	63	9	10
Capital Expenditure	42	6	48	15	29	(1)	25	30	99	32
Investment in PSU - IEBR	(21)	54	14	26	20	(8)	(16)	5	(33)	20
Capital + Investment in PSU - IEBR	(7)	38	23	22	22	(6)	(3)	15	29	28

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

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

**Project execution during the years of general elections declined by an average of 5% yoy in four prior instances:** Infrastructure spending during the years of general elections (FY05,10,15,20) witnessed a sharp dip vs. trendline growth. However, we have observed that infrastructure spending has been robust in the years before the elections (FY09,14,19) as the government ramps up execution prior to general elections.

We have observed that the decline in project execution in 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). The next general elections are in May 2024. We expect strong execution in FY24F, followed by a dip in growth in FY25F.

**The trend of decline in construction spending in election years is reflected in the 5% yoy dip in EPC revenue of construction companies in FY20 (election year). However, EPC revenue of construction companies rose by 5% yoy in FY15 (election year). We believe this could be due to a higher contribution from private capex.**

**Figure 6: Standalone revenue of various listed construction companies – we have considered revenue of L&T (domestic), PNC Infra, NCC, KNR Construction, Dilip Buildcon, IRB Infra, Ahluwalia Contracts, HCC, Sadbhav Engineering, Simplex Infra, ITD Cementation and HG Infra for our analysis**

(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	CAGR %
L&T domestic	483	497	517	581	678	682	575	809	7
yoy growth %	1	3	4	12	17	1	-16	41	
Other companies	308	363	382	416	513	454	408	496	8
yoy growth %	12	18	5	9	23	-12	-10	22	
<b>Total</b>	<b>791</b>	<b>860</b>	<b>900</b>	<b>998</b>	<b>1,191</b>	<b>1,136</b>	<b>983</b>	<b>1,305</b>	<b>7</b>
yoy growth %	5	9	5	11	19	-5	-13	33	
Spending on Infra - capital + investment in PSU (IEBR)	979	1,348	1,654	2,026	2,481	2,340	2,273	2,622	12
yoy growth %	-7	38	23	22	22	-6	-3	15	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Impact of high crude oil prices (up 84% since FY21) on execution of infrastructure projects >**

This may stretch government finances via higher oil subsidy and/ or lead to higher inflation. While the current price (US\$81/bbl) is 28% lower than in FY12 in USD terms but in INR terms, it is 24% higher due to a 42% depreciation in the USD/ INR exchange rate over FY12-23.

- Prices of crude oil stood elevated over FY11-14. The resultant government spending on infrastructure was muted over FY10-13 (a 3% CAGR over FY09-13).
- Prices of crude oil were benign over FY15-17. The resultant government spending on infrastructure rose by an 18% CAGR over FY14-17.

Diesel prices currently are just 24% higher than the FY21 average, despite the prices of crude oil currently being 84% higher than the FY21 average.

**Figure 7: Prices of crude oil, prices of diesel and growth in government spending on the infrastructure sector**

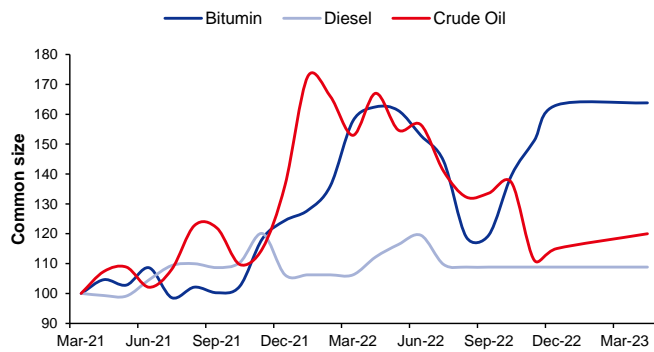
	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Latest
Crude Oil (Rs/ bbl)	3,893	3,309	5,103	5,376	5,908	6,365	3,550	2,758	3,402	4,238	4,795	3,822	3,636	5,759	7,670	6,675
yoy growth %	18	(15)	54	5	10	8	(44)	(22)	23	25	13	(20)	(5)	58	33	(13)
Diesel (Rs/ lit)	35	36	40	43	48	56	58	50	56	60	71	68	75	91	95	93
yoy growth %	6	3	11	8	12	17	4	(14)	12	7	18	(4)	10	21	4	(2)
% yoy growth of Capital + Investment in PSU - IEBR	9	(2)	1	9	5	29	(7)	38	23	22	22	(6)	(3)	15	29	

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS, BLOOMBERG, INDIAN OIL CORPORATION LIMITED

### The EBITDA margin of infrastructure companies is insulated from the sharp rise in raw material prices ➤

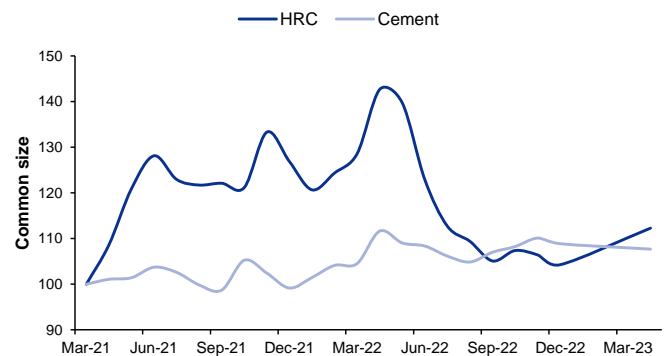
The prices of raw materials for the construction sector like cement/ diesel/ steel/bitumen have been volatile over Mar 2021 to Apr 2023. We note that the volatility in the prices of diesel and bitumen was lower than that of crude oil, from which they are derived. The prices of cement during the period were relatively stable. Despite the volatility, the EBITDA margin of companies (ex-Dilip Buildcon) has been steady over 2QFY21-4QFY23.

**Figure 8: Change in the prices of crude oil (USD), bitumen (Rs) and diesel (Rs) over Mar 2021 to Apr 2023**



SOURCE: INCRED RESEARCH, COMPANY REPORTS, INDIAN OIL CORPORATION, BLOOMBERG

**Figure 9: Changes in the prices of hot rolled coil (Rs) and cement (Rs) over Mar 2021 to Apr 2023**



SOURCE: INCRED RESEARCH, COMPANY REPORTS, INDIAN OIL CORPORATION, BLOOMBERG

**Figure 10: EBITDA margin % of EPC companies over 2QFY21-4QFY23**

(%)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Dilip Buildcon	15.9	16.5	15.5	13.2	10.6	0.3	9.5	7.8	11.6	10.5	9.5
PNC Infra	13.5	13.5	14.1	14.0	13.7	13.4	12.7	12.8	13.3	12.8	13.3
NCC	13.6	12.5	10.2	10.6	10.8	10.8	8.5	9.5	9.6	10.5	10.6
KNR Constructions	20.6	19.7	18.4	19.4	22.2	20.7	20.3	18.5	19.2	18.8	18.0
<b>Average</b>	<b>15.9</b>	<b>15.5</b>	<b>14.5</b>	<b>14.3</b>	<b>14.3</b>	<b>11.3</b>	<b>12.7</b>	<b>12.2</b>	<b>13.4</b>	<b>13.2</b>	<b>12.9</b>
<b>Average ex DBL</b>	<b>15.9</b>	<b>15.2</b>	<b>14.2</b>	<b>14.6</b>	<b>15.6</b>	<b>15.0</b>	<b>13.8</b>	<b>13.6</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS, BLOOMBERG, INDIAN OIL CORPORATION LIMITED

EBITDA margin for EPC companies has declined on an average by 320 bp over FY20-23, mainly due to the margin decline in DBL. Even excluding DBL, the EBITDA margin declined by 170bp. However, we believe this was not due to the volatility in raw material prices, but possibly due to the rise in competition.

- EPC contracts have an escalation clause, whereby the raw material price volatility is borne by the government project-awarding entity.
- For under-construction BOT toll/annuity projects, the initial toll rate/annuity gets adjusted upward/downward, depending on the WPI inflation during the construction period.

**Figure 11: EBITDA margin % of EPC companies over FY11-23**

(%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23F
Dilip Buildcon	21.2	22.0	24.7	20.3	21.6	19.6	19.5	18.1	17.8	17.5	16.0	8.4	9.8
PNC Infra	11.3	12.0	12.3	12.3	13.9	13.2	13.1	14.5	14.1	13.7	13.7	12.5	13.4
NCC	9.6	7.6	8.2	6.6	7.8	8.9	8.7	11.3	11.8	12.5	11.8	10.0	10.1
KNR Constructions	16.3	17.7	16.7	15.1	14.4	16.9	14.9	19.9	20.0	21.7	19.8	20.7	19.3
<b>Average</b>	<b>14.6</b>	<b>14.8</b>	<b>15.5</b>	<b>13.6</b>	<b>14.4</b>	<b>14.6</b>	<b>14.0</b>	<b>15.9</b>	<b>15.9</b>	<b>16.4</b>	<b>15.3</b>	<b>12.9</b>	<b>13.2</b>
<b>Average ex DBL</b>	<b>12.4</b>	<b>12.4</b>	<b>12.4</b>	<b>11.3</b>	<b>12.0</b>	<b>13.0</b>	<b>12.2</b>	<b>15.2</b>	<b>15.3</b>	<b>16.0</b>	<b>15.1</b>	<b>14.4</b>	<b>14.3</b>

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS, BLOOMBERG, INDIAN OIL CORPORATION LIMITED

### Status update on the roads sector: Uptick in project-awarding activity required to sustain execution ➤

During FY19-21, road projects awarded lagged execution (just 72% average awards/execution). However, during the preceding four years (FY15-18), project awarding was strong (179% average awards/execution). We believe the strong order backlog built up over FY15-18 facilitated the strong execution over FY19-21.

**Post muted project-awarding activity in FY19-21, we believe that an uptick in project awards is required to sustain project execution. It is encouraging to note that project awards/execution stood at 122% in FY22.**

Note: Project-awarding activity in the year prior to election years (FY14/ 19) was weak.

**Figure 12: Road sector awards and execution for NHAI and MORTH**

(000 km)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
<b>Total Awards</b>	<b>3.9</b>	<b>10.0</b>	<b>9.9</b>	<b>1.9</b>	<b>3.2</b>	<b>8.0</b>	<b>10.1</b>	<b>15.9</b>	<b>17.1</b>	<b>5.5</b>	<b>9.0</b>	<b>11.0</b>	<b>12.7</b>
yoy growth %		156	(1)	(81)	67	150	27	58	7	(68)	63	22	16
NHAI	3.4	4.6	6.3	1.1	1.5	3.1	4.4	4.3	7.4	2.2	3.2	4.8	6.3
MORTH ex NHAI	0.5	5.4	3.6	0.8	1.7	4.9	5.7	11.6	9.7	3.3	5.8	6.1	6.4
<b>Total execution</b>	<b>5.0</b>	<b>4.5</b>	<b>5.1</b>	<b>5.7</b>	<b>4.3</b>	<b>4.4</b>	<b>6.1</b>	<b>8.2</b>	<b>9.8</b>	<b>10.9</b>	<b>10.2</b>	<b>13.3</b>	<b>10.5</b>
yoy growth %		(10)	12	13	(26)	4	37	36	19	10	(6)	30	(22)
NHAI	2.7	1.8	2.2	2.8	1.9	1.5	2.0	2.6	3.1	3.4	4.0	4.2	4.3
MORTH ex NHAI	2.3	2.7	2.8	2.9	2.4	2.9	4.1	5.6	6.8	7.5	6.3	9.1	6.1
<b>Total awards/ execution (%)</b>	<b>78</b>	<b>221</b>	<b>196</b>	<b>33</b>	<b>75</b>	<b>181</b>	<b>167</b>	<b>194</b>	<b>174</b>	<b>51</b>	<b>88</b>	<b>82</b>	<b>122</b>

SOURCE: INCRED RESEARCH, MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

**Bharatmala Phase-1:** The Ministry of Road Transport and Highways (MORTH) envisaged construction of 34.8kkm for an approved cost of Rs6.9tr (Rs199m/ km). Construction on 11.8kkm is complete (34% of total).

As of Dec 2022-end, 24.8kkm was awarded (71% of total) while 1kkm has been approved but is yet to be awarded (3% of total). Out of the revised planned expenses for awarded and approved length (25.7kkm for Rs7.8tr; Rs300m/km), 47%/ 52%/ 1% is expected via EPC/ HAM/ BOT modes, respectively. Thus, 20% of the total funding (32% of the construction cost) for the currently approved length is expected from the private sector.

**The revised expenses (Rs300m/km) are higher than the earlier approved expenses (Rs199m/km). We estimate a total cost of Rs10.6tr for 34.8kkm, and Rs7tr for the remaining Bharatmala project.**

We expect construction cost of Rs7tr for 34.8kkm (Rs200m/km). We estimate 87k ha land is required for 34.8kkm of highway (1 km requires incremental 2.5 ha - incremental 25m width). Based on an average land acquisition cost of Rs33m/ ha for the National Highways Authority of India or NHAI over FY18-20, we estimate the land acquisition cost at Rs3.5tr (Rs100m/km), 20% higher than the land acquisition rate in FY18-20.

**Based on the average funding over the last three years (Rs1.4tr p.a.), we believe it would take five years to complete the Bharatmala project. However, based on spending in FY23F (Rs1.7tr), we believe that it would take four years to complete the project.**

**Figure 13: Planned mode of construction of the awarded and approved portion of Bharatmala Phase-1**

	Length (km)	% of length	Cost (Rs bn)	% of cost	Rs mn/ km
EPC	14,317	56	3,667	47	256
HAM	10,989	43	4,044	52	368
BOT Toll	408	2	107	1	263
<b>Total</b>	<b>25,714</b>	<b>100</b>	<b>7,818</b>	<b>100</b>	<b>304</b>

SOURCE: INCRED RESEARCH, MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

**Figure 14: Expenditure during the last nine years for NHDP/ Bharatmala Phase-1**

(Rs bn)	CRF Cess	Toll Remittances	TOT monetisation	IEBR raised	Private sector
FY15	96	54	-	33	192
FY16	210	65	-	233	298
FY17	74	75	-	331	160
FY18	154	85	-	505	165
FY19	166	96	97	612	206
FY20	157	106	50	750	219
FY21	272	115	73	650	125
FY22	362	127	50	652	192
9MFY23	952	139	-	8	163
FY23E	1,269	186	-	11	218
<b>Avg FY20-23E</b>	<b>515</b>	<b>133</b>	<b>43</b>	<b>516</b>	<b>189</b>

SOURCE: COMPANY REPORTS, MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

**Strong order flow witnessed in FY21-22 continued in FY23 ▶**

The average OB-to-sales ratio for companies under our coverage was 2.8x (latest). This augurs well for sales growth in FY24F.

When compared to the Mar 2022 OB-to-sales ratio, the latest OB-to-sales ratio is higher for PNC Infra, similar for NCC, and lower for DBL, IRB Infra and KNR.



Among peers, NCC has the highest OB-to-sales ratio, while IRB Infra and KNR's OB-to-sales ratios are low.

**Figure 15: EPC OB-to-sales and sales growth for EPC companies in our coverage universe**

	Order book/ Sales (x)						yoy Sales growth (%)				
	FY18	FY19	FY20	FY21	FY22	Latest	FY19	FY20	FY21	FY22	FY23
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.5	18	(2)	3	(2)	12
NCC	4.3	3.4	3.2	5.2	4.0	3.8	60	(32)	(12)	39	34
PNC Infra	4.1	4.0	1.8	2.4	2.4	2.9	71	55	3	26	12
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.3	19	11	(25)	13	(2)
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.4	11	5	20	22	14
<b>Total</b>	<b>3.5</b>	<b>2.9</b>	<b>2.2</b>	<b>3.3</b>	<b>2.9</b>	<b>2.8</b>	<b>36</b>	<b>(5)</b>	<b>(5)</b>	<b>17</b>	<b>18</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

After a strong order flow in FY18-19, net order flow plummeted in FY20 to Rs39bn (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 cancellations, FY20 order inflow stood at Rs211bn (50% yoy decline). Since Mar 2020, order flow has picked up (Rs1,468bn in FY21-23).

**Figure 16: Order inflow over FY19-23 for EPC companies in our coverage universe**

(Rs bn)	Order inflow					
	FY18	FY19	FY20	FY21	FY22	FY23
Dilip Buildcon	141	64	69	175	72	99
NCC	220	207	(64)	186	99	242
PNC Infra	37	80	12	79	92	129
IRB Infra	90	6	(12)	68	73	84
KNR Constructions	5	38	35	48	52	36
<b>Total</b>	<b>493</b>	<b>396</b>	<b>39</b>	<b>557</b>	<b>388</b>	<b>590</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 17: Order inflow in FY23 accounted for 52% of the latest order book of the sector**

	Order flow	Order book	A/B (%)
	FY23 (A)	Latest (B)	
Dilip Buildcon	99	254	39
NCC	242	502	48
PNC Infra	129	205	63
IRB Infra	84	88	95
KNR Constructions	36	89	40
<b>Total</b>	<b>590</b>	<b>1,138</b>	<b>52</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 20% of latest OB must be funded by private road developers, like FY19 (24%) ▶

Around 27% of the latest OB of companies in our coverage comprise hybrid annuity model (HAM) projects. The concessionaire bears 60% of the project cost of HAM projects and the project-awarding authority bears the remaining 40%.

**Figure 18: Percentage of OBs to be funded by the companies in our coverage**

(Rs bn)	Order book FY19		Order book Latest	
	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	254	24
NCC	412	-	502	-
PNC Infra	122	34	205	37
IRB Infra	111	85	88	65
KNR Constructions	40	40	89	36
<b>Total</b>	<b>897</b>	<b>24</b>	<b>1,138</b>	<b>20</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Key EPC segment financials ▶

We factor in a 9% EPC sales CAGR (FY23-25F) for the companies in our coverage vs. a 10% EPC sales CAGR over FY20-23.

Blended EBITDA margin for companies in our coverage declined from 15.1% in FY20 to 11.7% in FY23, mainly due to the sharp decline in DBL's margin (16.4% in FY20 to 9.8% in FY23). Even excluding DBL, blended EBITDA margin declined from 14.3% in FY20 to 12.5% in FY23. We believe this signals an increase in competition in the last three years. We expect DBL's margin to rise to 13% in

FY24F, and thus we expect the companies' blended margin to rise to 12.5% in FY24F.

**Figure 19: Key financials of the EPC segment for construction companies**

(Rs bn)	FY20	FY21	FY22	FY23	FY24F	FY25F
<b>Dilip Buildcon</b>						
Sales	90	92	90	101	109	109
Sales growth yoy (%)	(2)	3	(2)	12	8	-
EBITDA margin ex bonus (%)	16.4	15.8	8.4	9.8	13.0	13.0
RoCE (%)	20.6	18.0	5.3	9.0	15.6	15.8
NWC/ Sales (%)	39.1	42.6	55.9	51.3	48.3	48.5
Interest rate (%)	15.5	13.8	13.6	13.0	13.0	13.0
<b>NCC</b>						
Sales	82	73	99	134	158	166
Sales growth yoy (%)	(32)	(12)	37	34	19	5
EBITDA margin ex bonus (%)	12.5	11.8	10.0	10.1	10.0	10.0
RoCE (%)	13.3	10.1	11.2	14.1	14.2	13.8
NWC/ Sales (%)	62.1	74.7	60.2	50.4	50.5	53.0
Interest rate (%)	15.4	13.7	13.5	14.1	13.5	13.5
<b>PNC Infra</b>						
Sales	48	49	63	71	79	83
Sales growth yoy (%)	55	3	28	12	12	5
EBITDA margin ex bonus (%)	13.7	13.7	12.5	13.5	13.3	13.3
RoCE (%)	41.4	48.0	51.8	42.5	40.3	45.2
NWC/ Sales (%)	14.1	11.0	10.2	20.1	22.4	19.5
Interest rate (%)	16.7	11.9	16.3	11.6	12.0	12.0
<b>KNR Constructions</b>						
Sales	22	27	33	37	40	40
Sales growth yoy (%)	5	20	21	14	7	-
EBITDA margin ex bonus (%)	21.7	19.8	20.7	19.3	19.0	19.0
RoCE (%)	25.2	29.7	34.5	30.6	28.6	27.0
NWC/ Sales (%)	19.8	16.0	14.0	29.2	33.6	35.1
Interest rate (%)	13.9	19.6	18.2	49.9	18.0	18.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Leverage and promoter holdings are at reasonable level ▶

Based on current OB and expected timelines of BOT/ HAM projects in the portfolio of companies under our coverage, we expect net debt/ EBITDA (standalone) to be within a reasonable range over FY24F-25F.

Among the companies in our coverage, consolidated net debt/market capitalization is high for DBL. Thus, we believe an expansion in the EV of DBL can have a substantial impact on its share price. On the other hand, PNC Infra, NCC, and KNR have lower consolidated net debt/market capitalization and an expansion in their EV will have a relatively lower impact on their share price.

**Figure 20: Leverage parameters of EPC companies**

	Net debt/ EBITDA - standalone (x)			Equity requirement (Rs bn) FY24F-25F	Consol Net Debt (FY23F)/ Market capitalisation (x)
	FY23	FY24F	FY25F		
Dilip Buildcon	3.3	3.4	2.4	19.0	2.5
NCC	2.4	2.6	2.1	-	0.4
PNC Infra	0.3	0.1	0.3	17.0	0.7
KNR Construction	(0.3)	0.1	(0.5)	6.0	0.1

\* Net Debt: Debt less cash

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 21: Promoter holding, as a percentage of promoter stake, of various companies as of end-Mar 2023**

	Promoter holding (Mar 23) %
Dilip Buildcon	70
NCC	22
PNC Infra	56
IRB Infra	34
KNR Construction	51

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Divergent FY24F EV/EBITDA valuations ▶

NCC, PNC Infra and KNR are trading at a premium to their five-year average EV/EBITDA, while DBL is trading at a sharp discount.

**Figure 22: Valuations of main third-party construction companies**

	EV/ EBITDA (x) for EPC segment		Premium (%) of current FY24F multiple
	5-year average	Current FY24F	vs. 5-year average
Dilip Buildcon	5.9	3.2	(46)
NCC	6.1	6.5	7
PNC Infra	5.5	6.4	16
KNR Constructions	7.3	8.2	12
<b>Average</b>	<b>6.2</b>	<b>6.1</b>	<b>(2)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Infrastructure Investment Trust (InvIT): Reduces risk and increases returns for investors ➤**

**InvITs mitigate risks for investors:** While the units of an InvIT are not debt instruments, the risks are lower than in the equity of a road developer.

- Reduced risk of capex overrun and base traffic estimation. An InvIT is not allowed to invest more than 10% of its asset value in projects under construction. 80% of its asset value must be in completed projects.
- External debt must be less than 70% of asset value. If the above two conditions are breached due to share price movements, InvIT has six months (a year with unit-holder approval) to meet the above two conditions.
- At least 90% of the special purpose vehicle’s (SPV) net distributable cash flow (NDCF) must be distributed to the InvIT, and at least 90% of the InvIT’s NDCF must be distributed to unit-holders.
- Control over acquisition/divestment. The decision to acquire/divest the asset is subject to a vote by the owners of the InvIT, in which the promoter/sponsor is not allowed to participate, and a majority vote is required to proceed with the acquisition/divestment.
- InvIT’s sponsor must have a minimum of 15% shareholding for three years after it is listed.

**InvIT maximizes returns for investors:** Returns to unit-holders include interest on subordinated debt, principal repayment of subordinated debt and dividends.

- Zero taxes on (a) dividend distribution by the SPV to the trust and by the trust to the unit-holder, and (b) subordinated debt repayment.
- Domestic/foreign investors are charged withholding tax of 10%/5% on interest income.

**For InvIT, yield is a misnomer and the key metric to monitor is IRR:**

- Yield in financial instruments means interest with the implicit assumption of principal repayment at the end of tenure. InvIT payout includes interest and principal repayment. InvIT’s assets have a finite blended life of 10-15 years.
- The yield in the initial years could be high for an InvIT with a high proportion of mature assets approaching the end of their concession periods.



India

**REDUCE** (no change)

Consensus ratings\*: Buy 14 Hold 0 Sell 1

Current price:	Rs123
Target price:	Rs104
Previous target:	Rs104
Up/downside:	-15.4%
InCred Research / Consensus:	-25.9%

Reuters:	
Bloomberg:	NJCC IN
Market cap:	US\$1,059m
	Rs76,911m
Average daily turnover:	US\$10.6m
	Rs772.4m
Current shares o/s:	609.9m
Free float:	80.3%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.9)	30.9	94.6
Relative (%)	(4.0)	25.1	69.2

Major shareholders	% held
Promoter and Promoter group	19.7
Rakesh Jhunjunwala and family	12.8
IDFC Sterling Value Fund	3.4

Analyst(s)



**Rajarshi MAITRA**

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

# NCC Ltd

## Expensive valuation unlikely to sustain

- Healthy order book (OB)-to-sales ratio provides revenue visibility. However, likely weak industry order inflow in FY24F to hinder FY24F-25F sales growth.
- Maintain our REDUCE rating with an unchanged target price of Rs104. We value the EPC business at 6x FY25F EV/EBITDA, like its five-year median.

### Witnesses Rs290bn order inflow in FY22-23; OB-to-sales ratio is 3.8x

Despite strong order wins, NCC's OB-to-sales ratio declined from 5.2x (FY21) to 3.8x in Mar 2023 due to strong EPC execution in FY22-23. NCC's OB-to-sales ratio is higher than the industry average (2.8x). Orders won in FY23 were 52% of its OB vs. 35% for the industry. We forecast a 12% EPC sales CAGR over FY23-25F (vs. a 20% CAGR over FY20-23F). In FY24F, NCC is confident of ~10% EBITDA margin (like in FY23) and gave guidance of ~20% yoy sales growth. This is in line with our estimate. We expect the OB/sales ratio to decline to 3.1x in FY25F from 3.8x in FY23. The EBITDA margin in FY23 was at 10.1% vs. 12.5% in FY20. We factor in a 10% EBITDA margin in FY24F-25F. Please note that NCC won orders worth Rs132bn in 4QFY23.

### ROCE likely to rise to ~14%, similar to that in FY20

We expect standalone RoCE to rise from 11.2% (FY22) to 14.2% (FY24F) driven by a 27% yoy EBITDA CAGR over FY22-24F and a reduction in net working capital or NWC/sales ratio (in line with Mar 2023 level). We expect the consolidated ROE to remain subdued at the current level (8.6% in FY22) due to (a) -2% RoCE of non-core assets in FY22 (10% of consolidated balance sheet), and (b) higher interest cost of 13.5%.

### Still awaits resolution on arbitration

NCC expects a favourable resolution in its litigation with Sembcorp (Rs6bn recovery) by 1HFY24F. In the arbitration with Taqa, NCC is trying to reach an out-of-court settlement. We factor in a net receipt of Rs5bn (Rs8/share) for NCC.

### Roll forward target price to Mar 2024F; retain REDUCE rating

We believe NCC trades at an expensive valuation (standalone 6.5x FY24F EV/EBITDA vs. five-year median of 6.1x). We retain our REDUCE rating on NCC with an unchanged sum-of-the-parts or SOTP-based target price of Rs104. We value the EPC business at 6x FY25F EV/EBITDA, in line with its five-year median. Strong order inflow in FY24F (vs. our estimate of Rs140bn) is an upside risk.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	79,494	111,380	155,534	181,450	189,327
Operating EBITDA (Rsm)	9,191	10,238	14,590	17,013	17,801
Net Profit (Rsm)	2,683	4,824	6,092	7,637	7,980
Core EPS (Rs)	4.6	4.6	10.1	12.2	12.7
Core EPS Growth	(27.8%)	(0.7%)	120.4%	20.7%	4.5%
FD Core P/E (x)	27.84	15.49	12.44	10.07	9.64
DPS (Rs)	0.8	2.0	0.5	0.6	0.6
Dividend Yield	0.78%	1.96%	0.44%	0.55%	0.59%
EV/EBITDA (x)	11.57	10.07	7.33	6.81	6.16
P/FCFE (x)	158.51	20.75	(209.88)	(24.03)	15.25
Net Gearing	60.4%	49.0%	48.5%	54.6%	41.5%
P/BV (x)	1.44	1.33	1.25	1.12	1.01
ROE	5.6%	5.2%	10.6%	11.7%	11.0%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Expensive valuation unlikely to sustain

Figure 23: Order book and OB/ sales

(Rs bn)	FY20	FY21	FY22	FY23	FY24F	FY25F
Closing Order book	265	379	394	502	485	519
Order flow	(60)	189	113	242	140	200
Sales	82	73	99	134	158	166
% yoy growth		(12)	37	34	19	5
OB/ TTM Sales (x)	3.2	5.2	4.0	3.8	3.1	3.1
% of OB from buildings	50	56	57	46		
% of OB from Water & environment	18	19	18	16		
% of OB from Roads	10	5	3	12		
% of OB from Others	23	20	22	26		
EBITDA margin %	12.5	11.8	10.0	10.1	10.0	10.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 24: NCC's key standalone financial ratios

(%)	FY20	FY21	FY22	FY23	FY24F	FY25F
RoCE	13.3	10.1	11.2	14.1	14.2	13.8
EBIT margin	10.4	9.4	8.2	8.6	8.5	8.5
NFA/ Sales	16.0	17.8	13.3	10.3	9.3	8.3
NWC / Sales	62.1	74.7	60.2	50.4	50.5	53.0
Interest rate	15.4	13.7	13.5	13.5	13.5	13.5
EV/ EBITDA - EPC (x)			7.5	6.3	6.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 25: NCC's key consolidated financial ratios

(%)	FY20	FY21	FY22	FY23	FY24F	FY25F
RoCE	11.8	9.1	10.3	14.1	13.8	14.2
RoE	6.9	5.2	8.6	9.9	11.1	10.4
Interest rate	14.0	13.1	13.1	14.0	13.2	13.2
Net Debt/ EBITDA (x)	2.5	3.1	2.5	1.9	2.1	1.7
EBIT/ Interest (x)	1.6	1.5	1.8	2.4	2.7	2.7
Net Debt/ Equity (x)	0.6	0.6	0.5	0.5	0.5	0.4
EV/ EBITDA (x)				6.9	5.9	5.6
PE (x)				11.6	9.5	9.0
PBV (x)				1.2	1.0	0.9

NOTE: NET DEBT CALCULATED AS DEBT - CASH - INVESTMENTS  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 26: Median EV/EBITDA of 6.1x over the last five years, stock currently trades at 6.5x FY24F EV/EBITDA



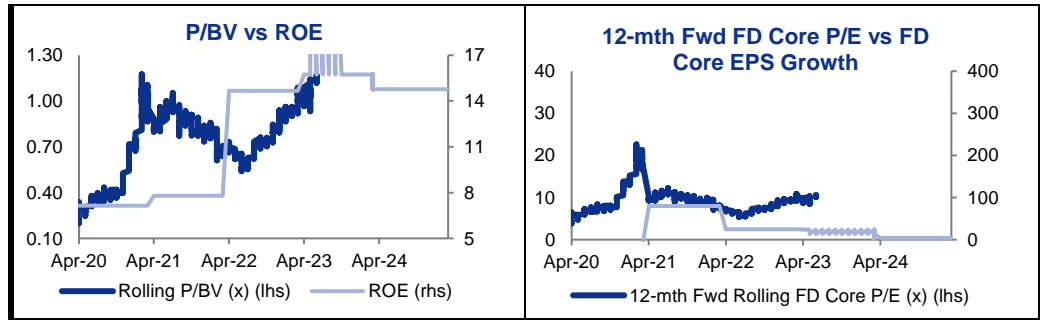
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 27: SOTP-based target price

	Rs bn	Rs/ share	Comments
EV of EPC business	100	164	Valued at 6x FY25F EV/EBITDA
Recovery via arbitration	5	8	
Less: Net Debt FY24F	-39	-65	
<b>Total</b>	<b>64</b>	<b>104</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>79,494</b>	<b>111,380</b>	<b>155,534</b>	<b>181,450</b>	<b>189,327</b>
<b>Gross Profit</b>	<b>15,610</b>	<b>18,390</b>	<b>24,058</b>	<b>32,661</b>	<b>34,079</b>
<b>Operating EBITDA</b>	<b>9,191</b>	<b>10,238</b>	<b>14,590</b>	<b>17,013</b>	<b>17,801</b>
Depreciation And Amortisation	(1,813)	(1,867)	(2,026)	(2,600)	(2,800)
<b>Operating EBIT</b>	<b>7,378</b>	<b>8,371</b>	<b>12,564</b>	<b>14,413</b>	<b>15,001</b>
Financial Income/(Expense)	(4,799)	(4,781)	(5,152)	(5,353)	(5,485)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,159	707	1,476	1,476	1,476
<b>Profit Before Tax (pre-EI)</b>	<b>3,738</b>	<b>4,297</b>	<b>8,888</b>	<b>10,537</b>	<b>10,992</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>3,738</b>	<b>4,297</b>	<b>8,888</b>	<b>10,537</b>	<b>10,992</b>
Taxation	(795)	(1,407)	(2,386)	(2,634)	(2,748)
Exceptional Income - post-tax	(126)	2,036	(144)		1
<b>Profit After Tax</b>	<b>2,818</b>	<b>4,926</b>	<b>6,357</b>	<b>7,902</b>	<b>8,245</b>
Minority Interests	(134)	(102)	(265)	(265)	(265)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>2,683</b>	<b>4,824</b>	<b>6,092</b>	<b>7,637</b>	<b>7,980</b>
Recurring Net Profit	2,809	2,788	6,236	7,637	7,979
<b>Fully Diluted Recurring Net Profit</b>	<b>2,809</b>	<b>2,788</b>	<b>6,236</b>	<b>7,637</b>	<b>7,979</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>9,191</b>	<b>10,238</b>	<b>14,590</b>	<b>17,013</b>	<b>17,801</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,763)	(446)	(6,932)	(14,773)	(1,001)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(4,799)	(4,781)	(5,152)	(5,353)	(5,485)
Tax Paid	(795)	(1,407)	(2,386)	(2,634)	(2,748)
<b>Cashflow From Operations</b>	<b>(2,166)</b>	<b>3,605</b>	<b>119</b>	<b>(5,746)</b>	<b>8,567</b>
Capex	(1,172)	(470)	(5,412)	(2,931)	(3,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	86	938	(62)		
Other Investing Cashflow	1,033	2,743	1,332	1,476	1,477
<b>Cash Flow From Investing</b>	<b>(53)</b>	<b>3,211</b>	<b>(4,142)</b>	<b>(1,455)</b>	<b>(1,523)</b>
Debt Raised/(repaid)	2,691	(3,216)	3,662	4,000	(2,000)
Proceeds From Issue Of Shares	551	954	(110)		
Shares Repurchased					
Dividends Paid	(585)	(1,464)	(342)	(423)	(451)
Preferred Dividends					
Other Financing Cashflow	722	(2,131)	1,900	(265)	(265)
<b>Cash Flow From Financing</b>	<b>3,378</b>	<b>(5,857)</b>	<b>5,110</b>	<b>3,312</b>	<b>(2,716)</b>
Total Cash Generated	1,159	960	1,088	(3,889)	4,328
<b>Free Cashflow To Equity</b>	<b>471</b>	<b>3,600</b>	<b>(361)</b>	<b>(3,201)</b>	<b>5,044</b>
<b>Free Cashflow To Firm</b>	<b>2,580</b>	<b>11,597</b>	<b>1,129</b>	<b>(1,848)</b>	<b>12,529</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	5,046	6,005	7,093	3,203	7,531
Total Debtors	28,792	26,531	33,326	40,326	42,138
Inventories	12,222	11,533	13,740	15,641	12,944
Total Other Current Assets	68,122	79,647	88,944	104,662	109,699
<b>Total Current Assets</b>	<b>114,182</b>	<b>123,717</b>	<b>143,103</b>	<b>163,832</b>	<b>172,312</b>
Fixed Assets	11,524	11,468	12,543	12,943	13,143
Total Investments	7,261	6,489	6,157	6,157	6,157
Intangible Assets			69		
Total Other Non-Current Assets	2,432	2,906	3,630	3,630	3,630
<b>Total Non-current Assets</b>	<b>21,217</b>	<b>20,863</b>	<b>22,398</b>	<b>22,729</b>	<b>22,929</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	42,599	50,729	62,095	71,941	75,092
<b>Total Current Liabilities</b>	<b>42,599</b>	<b>50,729</b>	<b>62,095</b>	<b>71,941</b>	<b>75,092</b>
Total Long-term Debt	38,105	34,890	38,551	42,551	40,551
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>38,105</b>	<b>34,890</b>	<b>38,551</b>	<b>42,551</b>	<b>40,551</b>
Total Provisions					
<b>Total Liabilities</b>	<b>80,705</b>	<b>85,618</b>	<b>100,647</b>	<b>114,493</b>	<b>115,644</b>
Shareholders Equity	51,713	56,027	61,668	68,883	76,411
Minority Interests	2,981	2,934	3,186	3,186	3,186
<b>Total Equity</b>	<b>54,694</b>	<b>58,962</b>	<b>64,855</b>	<b>72,069</b>	<b>79,598</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(10.7%)	40.1%	39.6%	16.7%	4.3%
Operating EBITDA Growth	(15.5%)	11.4%	42.5%	16.6%	4.6%
Operating EBITDA Margin	11.6%	9.2%	9.4%	9.4%	9.4%
Net Cash Per Share (Rs)	(54.21)	(47.36)	(50.11)	(62.67)	(52.59)
BVPS (Rs)	84.80	91.87	98.22	109.71	121.70
Gross Interest Cover	1.54	1.75	2.44	2.69	2.74
Effective Tax Rate	21.3%	32.7%	26.9%	25.0%	25.0%
Net Dividend Payout Ratio	16.2%	34.9%	4.0%	4.1%	4.2%
Accounts Receivables Days	133.55	90.65	70.23	74.08	79.49
Inventory Days	74.66	46.62	35.08	36.04	33.60
Accounts Payables Days					
ROIC (%)	9.7%	10.4%	15.4%	16.0%	14.3%
ROCE (%)	8.2%	9.0%	12.7%	13.2%	12.8%
Return On Average Assets	6.2%	6.5%	9.1%	9.0%	8.6%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Outstanding Orderbook (Rs m)	379,110	393,610	502,440	484,894	519,472
Orderbook Replenishment (Rs m)	190,122	122,368	242,343	140,000	200,000

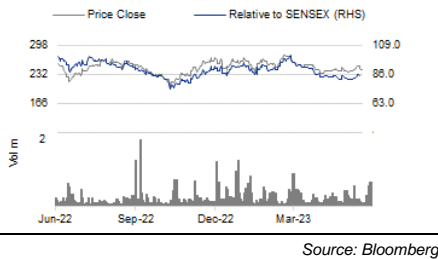
SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

**REDUCE** (no change)

Consensus ratings*: Buy 19 Hold 2 Sell 1	
Current price:	Rs243
Target price:	Rs235
Previous target:	Rs235
Up/downside:	-3.3%
InCred Research / Consensus:	-21.1%
Reuters:	KNRL.NS
Bloomberg:	KNRC IN
Market cap:	US\$942m Rs68,368m
Average daily turnover:	US\$1.2m Rs90.3m
Current shares o/s:	281.2m
Free float:	48.5%

\*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	(0.1)	(12.2)	(5.6)
Relative (%)	(2.3)	(16.0)	(17.9)

Major shareholders	% held
Promoter and Promoter group	51.5
DSP Equity Fund	6.4
HDFC Trustee Company Ltd	6.4

Analyst(s)



**Rajarshi MAITRA**  
T (91) 22 4161 1546  
E rajarshi.maitra@incredcapital.com

# KNR Constructions Ltd

## Slim order book; maintain REDUCE rating

- Slim order book (OB) and likely weak order flow in FY24F are areas of concern.
- Maintain REDUCE rating with an unchanged target price of Rs235. We value the EPC business at 7x EV/EBITDA FY25F, like its five-year median (7.3x).

### Slim order book and weak order inflow in FY24F are areas of concern

The order book or OB-to-sales ratio of KNR Constructions (KNR) declined from 2.8x in Mar 2022 to 1.9x in Mar 2023. The entire OB is from South India. KNR has also won three Hybrid Annuity Model (HAM) projects worth Rs17.8bn in construction value, which were not included in the Mar 2023 OB. Including these, the OB-to-sales ratio rises to 2.4x. HAM projects account for 60% of the OB and thus, KNR must fund 36% of its OB worth Rs89bn (equity requirement of Rs6bn). KNR's OB-to-sales ratio is lower than the industry average (2.8x). Orders won in FY23 and in the last two months accounted for 40% of its OB vs. 35% for the industry. We forecast a 4% EPC sales CAGR over FY23-25F (vs. a 19% CAGR over FY20-23). We expect an OB/sales ratio of 2.1x in FY25F. The EBITDA margin in FY23 was at 19.3% vs. 21.7% in FY20. We factor in a 19% margin in FY24F-25F.

### Healthy EPC ROCE due to a higher proportion of in-house projects

Standalone RoCE was higher over FY20-22 (~30%) because of in-house projects (primarily HAM) accounting for 40% of KNR's OB in FY20-22. We expect a similar standalone RoCE over FY23-25F, as 60% of its OB comprises HAM projects. Consolidated RoCE in FY20-22 was just 18%, despite the high standalone RoCE, as BOT assets comprised 56% of the consolidated balance sheet. KNR's RoCE of BOT assets is lower than that of the EPC segment. During FY24F, we expect consolidated ROCE to be subdued and the consolidated net debt/EBITDA ratio to rise to 7.5x due to a higher proportion of assets under construction.

### Sale of HAM projects

In Oct 2022, KNR completed the sale of three HAM projects (bid project cost of Rs40bn) to Cube Highways for Rs5.2bn (Rs4.9bn received). The invested equity in these three projects stood at Rs3.7bn. In Dec 2021, KNR transferred its 49% stake in Tirumala/Shankarampet projects for Rs1.4bn/Rs1bn, respectively, resulting in a Rs214m profit in 3QFY22.

### Maintain REDUCE rating and target price of Rs235

We believe KNR trades at an expensive valuation (standalone 8.2x FY24F EV/EBITDA vs. five-year median of 7.3x), especially considering the slim OB and likely weak order inflow in FY24F. We value the EPC business at 7x FY25F EV/EBITDA, like its five-year median (7.3x). Our target multiple for KNR is higher than that of rival NCC because while NCC has a higher OB/sales ratio, KNR's RoCE is higher. We retain our REDUCE rating on the stock with an unchanged sum-of-the-parts or SOTP-based target price of Rs235. Strong order wins in FY24F (vs. our estimate of Rs35bn) is an upside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	29,036	36,058	40,624	43,679	43,692
Operating EBITDA (Rsm)	6,963	7,987	9,174	9,908	9,909
Net Profit (Rsm)	3,828	3,664	4,395	5,594	5,497
Core EPS (Rs)	10.6	12.3	13.4	19.9	19.5
Core EPS Growth	11.6%	15.9%	9.5%	48.1%	(1.7%)
FD Core P/E (x)	22.97	19.82	18.10	12.22	12.44
DPS (Rs)	0.3	0.3	0.5	0.5	0.5
Dividend Yield	0.12%	0.12%	0.26%	0.26%	0.26%
EV/EBITDA (x)	11.03	10.51	8.06	14.37	14.73
P/FCFE (x)	55.75	(68.07)	37.32	40.71	25.53
Net Gearing	45.3%	54.7%	22.8%	227.3%	204.9%
P/BV (x)	3.47	2.94	2.49	2.08	1.79
ROE	16.9%	16.1%	14.9%	18.5%	15.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Slim order book; maintain REDUCE rating

Figure 28: Order book details

(Rs bn)	FY20	FY21	FY22	FY23	FY24F	FY25F
Closing Order book	52	71	90	71	66	85
Order flow	35	46	52	18	35	59
Sales	22	27	33	37	40	40
yoy growth %	5	20	21	14	7	-
OB/ TTM Sales (x)	2.3	2.6	2.8	1.9	1.6	2.1
% of OB from HAM	47	26	45	50		
% of OB from Road - EPC	23	31	30	27		
% of OB from Irrigation	30	44	25	23		
EBITDA margin %	21.7	19.8	20.7	19.3	19.0	19.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 29: KNR's key standalone financial ratios

(%)	FY20	FY21	FY22	FY23	FY24F	FY25F
ROCE	25.2	29.7	34.5	30.6	28.6	27.0
EBIT margin	13.2	14.5	16.6	15.3	15.0	14.5
NFA/ Sales (x)	19.8	16.0	14.0	13.3	12.5	12.7
NWC/ Sales (x)	19.2	22.9	25.3	29.2	33.6	35.1
Interest rate	13.9	19.6	18.2	49.9	18.0	18.0
Net Debt/ EBITDA (x)	0.6	0.1	(0.0)	(0.3)	0.1	(0.5)
EV/EBITDA (x) - EPC				8.6	8.2	8.2

NOTE: NET DEBT CALCULATED AS DEBT - CASH  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: KNR's key consolidated financial ratios

(%)	FY20	FY21	FY22	FY23	FY24F	FY25F
ROCE	16.0	19.0	18.9	20.5	11.4	7.0
ROE	18.6	16.9	16.1	14.9	18.5	15.5
Interest rate	11.7	12.4	11.0	12.2	2.0	1.0
Net Debt/ EBITDA (x)	1.5	1.2	1.7	0.6	7.5	7.8
EBIT/ Interest (x)	3.3	3.9	4.3	4.8	9.4	9.5
Net Debt/ Equity (x)	0.6	0.5	0.5	0.2	2.3	2.0
EV/EBITDA (x)				8.3	7.7	7.7
P/E (x)				16.1	12.6	12.8
P/BV (x)				2.6	2.1	1.8

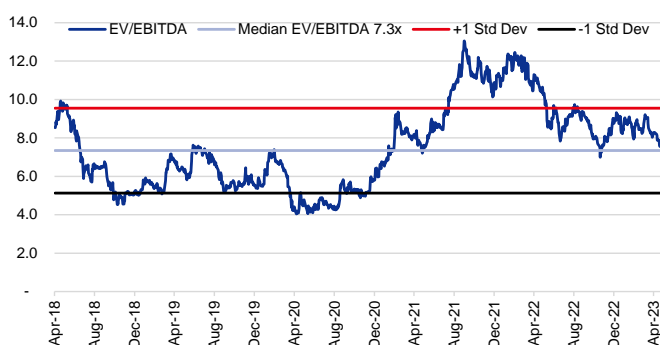
NOTE: NET DEBT CALCULATED AS DEBT - CASH - INVESTMENTS  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 31: Orders recently won, not included in Mar 2023 OB

Date	Type	Industry	Size (Rs bn)	Client	Duration	State	Particulars
Mar 23	HAM	Road	6.0	NHAI	24 months	Andhra Pradesh	6-Lane highway
Mar 23	HAM	Road	5.9	NHAI	24 months	Karnataka	4-Lane highway
Mar 23	HAM	Road	6.2	NHAI	24 months	Karnataka	4-Lane highway

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 32: Median EV/EBITDA of 7.3x over the last five years, stock currently trades at 8.2x FY24F EV/EBITDA



SOURCE: INCRED RESEARCH, COMPANY REPORTS

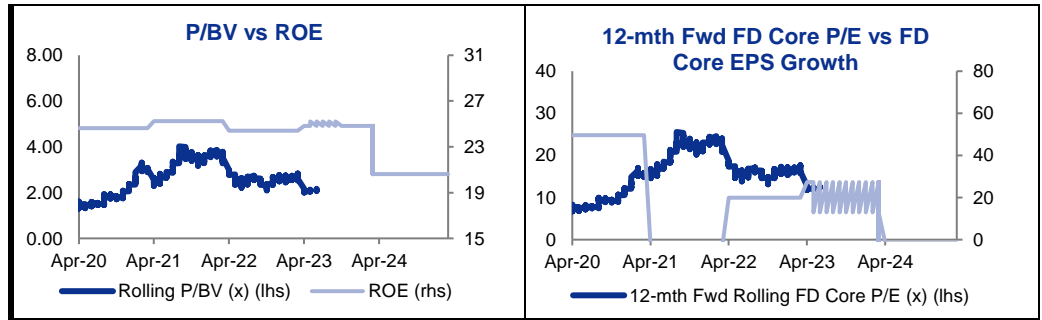
Figure 33: SOTP-based target price

	(Rs bn)	Rs/ share	Comments
EV of EPC Business	53.3	189	Valued at 7x EV/EBITDA FY25F
Equity value of BOT assets	11.4	41	Our target equity value implies 1x P/BV FY24F
Less Standalone Net Debt FY24F	(1.0)	(4)	
Arbitration claims awarded, but client has not accepted	2.3	8	Valued at 50% of claim amount
<b>Total</b>	<b>66.0</b>	<b>235</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>29,036</b>	<b>36,058</b>	<b>40,624</b>	<b>43,679</b>	<b>43,692</b>
<b>Gross Profit</b>	<b>9,086</b>	<b>11,547</b>	<b>14,304</b>	<b>15,288</b>	<b>15,292</b>
<b>Operating EBITDA</b>	<b>6,963</b>	<b>7,987</b>	<b>9,174</b>	<b>9,908</b>	<b>9,909</b>
Depreciation And Amortisation	(1,899)	(1,649)	(1,807)	(1,918)	(2,080)
<b>Operating EBIT</b>	<b>5,064</b>	<b>6,337</b>	<b>7,367</b>	<b>7,989</b>	<b>7,829</b>
Financial Income/(Expense)	(1,309)	(1,481)	(1,531)	(854)	(828)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	516	449	367	367	367
<b>Profit Before Tax (pre-EI)</b>	<b>4,271</b>	<b>5,305</b>	<b>6,203</b>	<b>7,502</b>	<b>7,368</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>4,271</b>	<b>5,305</b>	<b>6,203</b>	<b>7,502</b>	<b>7,368</b>
Taxation	(1,370)	(1,970)	(2,418)	(1,900)	(1,829)
Exceptional Income - post-tax	853	214	618		
<b>Profit After Tax</b>	<b>3,754</b>	<b>3,549</b>	<b>4,403</b>	<b>5,602</b>	<b>5,538</b>
Minority Interests	74	115	(8)	(8)	(41)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>3,828</b>	<b>3,664</b>	<b>4,395</b>	<b>5,594</b>	<b>5,497</b>
Recurring Net Profit	2,976	3,450	3,777	5,594	5,497
<b>Fully Diluted Recurring Net Profit</b>	<b>2,976</b>	<b>3,450</b>	<b>3,777</b>	<b>5,594</b>	<b>5,497</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>6,963</b>	<b>7,987</b>	<b>9,174</b>	<b>9,908</b>	<b>9,909</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(7,992)	(9,437)	5,653	(73,841)	(9,441)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,309)	(1,481)	(1,531)	(854)	(828)
Tax Paid	(1,370)	(1,970)	(2,418)	(1,900)	(1,829)
<b>Cashflow From Operations</b>	<b>(3,707)</b>	<b>(4,902)</b>	<b>10,878</b>	<b>(66,688)</b>	<b>(2,189)</b>
Capex		(2,811)	(1,926)	(2,000)	(1,500)
Disposals Of FAs/subsidiaries	3,815				
Acq. Of Subsidiaries/Investments	42	(116)	10		
Other Investing Cashflow	1,369	663	985	367	367
<b>Cash Flow From Investing</b>	<b>5,226</b>	<b>(2,264)</b>	<b>(932)</b>	<b>(1,633)</b>	<b>(1,133)</b>
Debt Raised/(repaid)	(292)	6,161	(8,115)	70,000	6,000
Proceeds From Issue Of Shares	79	2,244	(2,333)		
Shares Repurchased					
Dividends Paid	(81)	(81)	(176)	(176)	(176)
Preferred Dividends					
Other Financing Cashflow	(574)	(45)	287	(10)	(41)
<b>Cash Flow From Financing</b>	<b>(869)</b>	<b>8,279</b>	<b>(10,337)</b>	<b>69,814</b>	<b>5,784</b>
Total Cash Generated	650	1,114	(390)	1,494	2,461
<b>Free Cashflow To Equity</b>	<b>1,226</b>	<b>(1,004)</b>	<b>1,832</b>	<b>1,679</b>	<b>2,678</b>
<b>Free Cashflow To Firm</b>	<b>2,827</b>	<b>(5,684)</b>	<b>11,478</b>	<b>(67,467)</b>	<b>(2,494)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	1,478	2,592	2,202	3,695	6,157
Total Debtors	3,329	5,984	6,229	6,810	6,810
Inventories	1,480	2,274	2,342	2,805	2,805
Total Other Current Assets	25,384	32,015	22,698	106,356	115,747
<b>Total Current Assets</b>	<b>31,671</b>	<b>42,865</b>	<b>33,471</b>	<b>119,666</b>	<b>131,519</b>
Fixed Assets	4,166	5,782	5,902	6,280	5,997
Total Investments	617	733	723	723	723
Intangible Assets	3,618	3,323	3,028	2,733	2,437
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>8,401</b>	<b>9,838</b>	<b>9,653</b>	<b>9,737</b>	<b>9,156</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	9,881	10,524	7,173	18,034	17,985
<b>Total Current Liabilities</b>	<b>9,881</b>	<b>10,524</b>	<b>7,173</b>	<b>18,034</b>	<b>17,985</b>
Total Long-term Debt	10,426	16,587	8,473	78,473	84,473
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>10,426</b>	<b>16,587</b>	<b>8,473</b>	<b>78,473</b>	<b>84,473</b>
Total Provisions					
<b>Total Liabilities</b>	<b>20,307</b>	<b>27,112</b>	<b>15,646</b>	<b>96,507</b>	<b>102,457</b>
Shareholders Equity	19,678	23,277	27,478	32,897	38,218
Minority Interests	87	2,314			
<b>Total Equity</b>	<b>19,765</b>	<b>25,592</b>	<b>27,478</b>	<b>32,897</b>	<b>38,218</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	18.4%	24.2%	12.7%	7.5%	
Operating EBITDA Growth	11.9%	14.7%	14.9%	8.0%	
Operating EBITDA Margin	24.0%	22.1%	22.6%	22.7%	22.7%
Net Cash Per Share (Rs)	(31.82)	(49.76)	(22.30)	(265.89)	(278.47)
BVPS (Rs)	69.97	82.77	97.70	116.97	135.89
Gross Interest Cover	3.87	4.28	4.81	9.36	9.45
Effective Tax Rate	32.1%	37.1%	39.0%	25.3%	24.8%
Net Dividend Payout Ratio	1.9%	1.5%	2.8%	2.3%	2.4%
Accounts Receivables Days	31.90	47.13	54.87	54.48	56.89
Inventory Days	24.80	27.95	32.01	33.09	36.06
Accounts Payables Days					
ROIC (%)	20.1%	22.6%	19.0%	24.2%	7.3%
ROCE (%)	17.8%	17.5%	18.9%	10.8%	6.7%
Return On Average Assets	14.9%	14.6%	16.1%	9.7%	6.1%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Outstanding Orderbook (Rs m)	71,179	90,008	70,921	65,662	84,764
Orderbook Replenishment (Rs m)	45,908	51,555	18,351	34,800	59,160

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

**HOLD** (no change)

Consensus ratings\*: Buy 17 Hold 1 Sell 0

Current price: Rs323  
 Target price:  Rs337  
 Previous target: Rs337  
 Up/downside: 4.3%  
 InCred Research / Consensus: -18.6%

Reuters:  
 Bloomberg: PNCL IN  
 Market cap: US\$1,141m  
 Rs82,824m  
 Average daily turnover: US\$3.0m  
 Rs220.1m  
 Current shares o/s: 256.5m  
 Free float: 43.9%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.2	11.0	26.0
Relative (%)	3.9	6.1	9.6

Major shareholders	% held
Promoter and Promoter group	56.1
HDFC Small Cap Fund	8.7
ICICI Prudential	3.7

**Analyst(s)**



**Rajarshi MAITRA**

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

# PNC Infratech Ltd

## Trading at fair valuation – limited upside

- A major portion of PNC Infratech’s order book (OB) comprises orders that were won recently, which could lead to a tepid execution in 1HFY24F.
- Retain HOLD rating with a target price of Rs337. We value the EPC business at 6x FY25F EV/EBITDA, a tad higher than its 5-year median (5.5x).

### 63% of OB comprises recent order wins; slow 1HFY24F uptick likely

The OB-to-sales ratio of PNC Infratech was at 2.2x in Mar 2023, like that in FY21-22. PNC Infratech recently won four HAM projects (Rs41bn construction value) and an EPC project worth Rs8bn, which are not yet a part of the OB. Including these, the OB rises to Rs205bn and the OB-to-sales ratio increases to 2.9x. Out of 22 HAM projects, five are operational. We estimate that 62% of the latest OB comprises HAM projects, and thus PNC Infratech must fund 37% of its OB (Rs17bn equity, remaining via debt). PNC Infratech’s OB-to-sales ratio is like the industry average (2.8x). Orders won in FY23 account for 63% of its OB vs. 35% for the industry. We forecast a 9% EPC sales CAGR over FY23-25F (vs. a 14% CAGR over FY20-23). PNC Infratech gave guidance of 15% yoy EPC sales growth and 13-13.5% EBITDA margin for FY24F – in line with our estimates. We expect the OB/sales ratio to be at 2.3x in FY25F. The EBITDA margin in FY23 was at 13.5% vs. 13.7% in FY20. We factor in a 13.3% margin in FY24F-25F.

### Consolidated RoCE to be subdued in FY24F as HAM at 62% of OB

Standalone RoCE was higher over FY20-22 (~47%) because of in-house projects (primarily HAM) accounting for 58% of PNC Infratech’s OB in FY20-22. We expect a similar standalone RoCE in FY23-25F as 62% of its OB comprises HAM projects. Consolidated RoCE in FY20-22 was just 18%, despite the high standalone RoCE, as BOT assets comprised 83% of its consolidated balance sheet. PNC Infratech’s RoCE of BOT assets is lower than that of its EPC segment. In FY24F, we expect consol. ROCE to be subdued and net debt/ EBITDA to rise to 5.9x due to a high proportion of assets under construction.

### Maintain HOLD rating and target price of Rs337

We believe PNC Infratech trades at a fair valuation (standalone 6.4x FY24F EV/EBITDA vs. a 5-year median of 5.5x). We value the EPC business at 6x FY25F EV/EBITDA, a tad higher than its five-year median (5.5x). We maintain HOLD rating on PNC Infratech with an unchanged target price of Rs337. Our target multiple for PNC Infratech is the same as that of rival NCC because while NCC has a higher OB/sales ratio, PNC Infratech’s RoCE is higher. We value PNC Infratech’s under-construction assets at 1x capex and operational BOT assets using the discounted cash flow or DCF methodology (11.5% WACC for BOT – toll, 10.5% WACC for BOT – annuity). Strong order wins in FY24F (vs. our estimate of Rs99bn) are an upside risk while capex overrun in HAM projects is a downside risk.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	57,876	72,080	79,560	90,660	94,579
Operating EBITDA (Rsm)	14,217	15,345	16,000	19,855	20,259
Net Profit (Rsm)	4,969	5,804	6,584	4,761	5,695
Core EPS (Rs)	19.4	22.7	25.7	18.6	22.2
Core EPS Growth	29.8%	17.2%	13.1%	(27.7%)	19.6%
FD Core P/E (x)	16.67	14.22	12.58	17.40	14.54
DPS (Rs)	0.5	0.5	0.6	0.6	0.7
Dividend Yield	0.19%	0.19%	0.21%	0.23%	0.26%
EV/EBITDA (x)	7.84	7.87	8.57	10.07	11.35
P/FCFE (x)	(88.87)	(45.08)	(179.68)	(39.47)	(35.46)
Net Gearing	112.9%	116.3%	134.5%	253.5%	283.8%
P/BV (x)	2.71	2.28	1.93	1.75	1.57
ROE	17.7%	17.4%	16.6%	10.5%	11.4%

% Change In Core EPS Estimates  
 InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Trading at fair valuation – limited upside

**Figure 34: Order book details**

(Rs bn)	FY20	FY21	FY22	FY23	FY24F	FY25F
Closing Order book	86	116	147	157	176	193
Order Flow	12	79	93	81	99	100
Sales	48	49	63	71	79	83
yoy growth %	55	3	28	12	12	5
OB/ TTM Sales (x)	1.8	2.4	2.3	2.2	2.2	2.3
% of OB from HAM	82	66	27	59		
EBITDA margin %	13.7	13.7	12.5	13.5	13.3	13.3

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 35: PNC Infratech's key standalone financial ratios**

%	FY20	FY21	FY22	FY23	FY24F	FY25F
ROCE	41.4	48.0	51.8	42.5	40.3	45.2
EBIT margin	11.1	11.4	10.4	12.0	11.7	11.6
NFA/ Sales	12.7	12.7	9.9	8.0	6.7	6.2
NWC/ Sales	14.1	11.0	10.2	20.1	22.4	19.5
Interest rate	16.7	11.9	16.3	11.6	12.0	12.0
Net Debt/ EBITDA (x)	0.0	(0.3)	(0.1)	0.3	0.1	0.3
EV/ EBITDA - EPC (x)				7.0	6.4	6.0

NOTE: NET DEBT CALCULATED AS DEBT – CASH  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 36: PNC Infratech's key consolidated financial ratios**

%	FY20	FY21	FY22	FY23	FY24F	FY25F
ROCE	18.7	19.6	17.2	15.7	11.5	8.4
ROE	24.0	17.7	17.4	16.6	10.5	11.4
Interest rate	12.3	10.3	9.1	8.2	8.5	5.3
Net Debt/ EBITDA (x)	2.1	2.0	2.5	3.4	5.9	7.3
EBIT/ Interest (x)	2.0	2.5	2.7	2.9	1.9	2.1
Net Debt/ Equity (x)	1.2	1.1	1.2	1.3	2.5	2.8
EV/ EBITDA (x)				8.5	6.8	6.7
PE (x)				12.3	17.0	14.2
PBV (x)				1.9	1.7	1.5

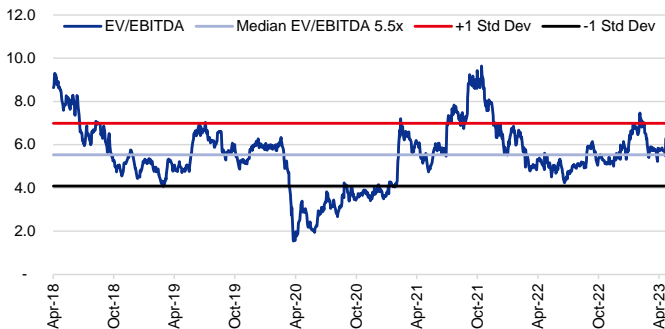
NOTE: NET DEBT CALCULATED AS DEBT – CASH – INVESTMENTS  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 37: Order wins post 3QFY23**

Date	Type	Industry	Size (Rs bn)	Client	Duration	State	Particulars
May 23	EPC	Metro	7.7	Haryana Orbital Rail Corp. Ltd	30 months	Haryana	Civil Works and its connectivity to Indian Railways.
Apr 23	HAM	Road	7.4	MORTH	24 months	UP	Construction of 4-lane highway.
Mar 23	HAM	Road	8.0	NHAI	25 months	Bihar	6-lane Greenfield Varanasi - Ranchi - Kolkata Highway from Chandauli - Chainpur Road near Khainti village to junction with Bhabhua - Adhaura road near Palka village.
Mar 23	HAM	Road	10.0	NHAI	26 months	Bihar	6-lane Greenfield Varanasi - Ranchi - Kolkata Highway from junction with Bhabhua - Adhaura Road in Bhairpur village to Konki village.
Mar 23	HAM	Road	11.3	NHAI	27 months	Bihar	6-lane Greenfield Varanasi-RanchiKolkata Highway from Pachmon village to Anarbansalea village.

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

**Figure 38: Median EV/EBITDA of 5.5x over the last five years, stock currently trades at 6.4x FY24F EV/EBITDA**



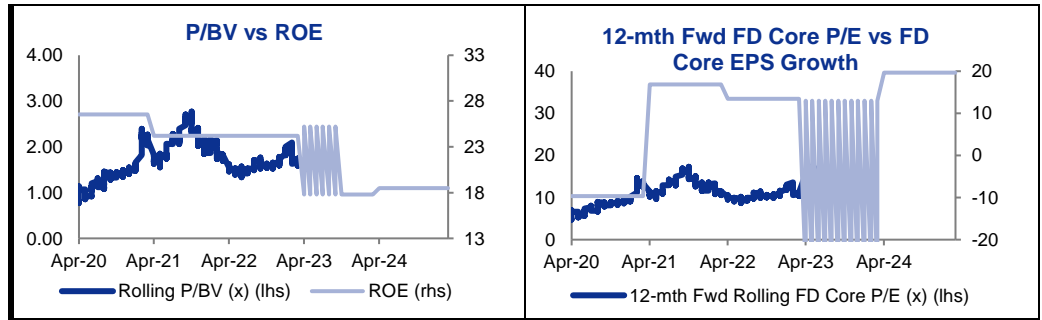
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

**Figure 39: SOTP-based target price**

	Rs bn	Rs/ share	Comments
EV of EPC business	66	258	Valued at 6x FY25F EV/EBITDA
EV of Operational BOT assets	14	53	Valued using DCF; implies 1x P/BV of invested equity
EV of Under construction assets	83	322	Valued at 1x Capex
EV of recent HAM projects	21	80	Valued at 1x Capex
Net Debt FY24F	-97	-377	
<b>Total</b>	<b>86</b>	<b>337</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>57,876</b>	<b>72,080</b>	<b>79,560</b>	<b>90,660</b>	<b>94,579</b>
<b>Gross Profit</b>	<b>35,435</b>	<b>40,153</b>	<b>29,178</b>	<b>58,929</b>	<b>61,477</b>
<b>Operating EBITDA</b>	<b>14,217</b>	<b>15,345</b>	<b>16,000</b>	<b>19,855</b>	<b>20,259</b>
Depreciation And Amortisation	(3,632)	(3,902)	(2,533)	(4,810)	(4,884)
<b>Operating EBIT</b>	<b>10,585</b>	<b>11,443</b>	<b>13,467</b>	<b>15,046</b>	<b>15,375</b>
Financial Income/(Expense)	(4,261)	(4,253)	(4,699)	(8,115)	(7,305)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,075	890	806	1,100	1,200
<b>Profit Before Tax (pre-EI)</b>	<b>7,399</b>	<b>8,079</b>	<b>9,574</b>	<b>8,031</b>	<b>9,270</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>7,399</b>	<b>8,079</b>	<b>9,574</b>	<b>8,031</b>	<b>9,270</b>
Taxation	(2,472)	(2,257)	(2,990)	(3,270)	(3,575)
Exceptional Income - post-tax		(19)			
<b>Profit After Tax</b>	<b>4,926</b>	<b>5,804</b>	<b>6,584</b>	<b>4,761</b>	<b>5,695</b>
Minority Interests	43				
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>4,969</b>	<b>5,804</b>	<b>6,584</b>	<b>4,761</b>	<b>5,695</b>
Recurring Net Profit	4,969	5,823	6,584	4,761	5,695
<b>Fully Diluted Recurring Net Profit</b>	<b>4,969</b>	<b>5,823</b>	<b>6,584</b>	<b>4,761</b>	<b>5,695</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>14,217</b>	<b>15,345</b>	<b>16,000</b>	<b>19,855</b>	<b>20,259</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(11,242)	(18,566)	(25,333)	(68,079)	(36,462)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(4,261)	(4,253)	(4,699)	(8,115)	(7,305)
Tax Paid	(2,472)	(2,257)	(2,990)	(3,270)	(3,575)
<b>Cashflow From Operations</b>	<b>(3,758)</b>	<b>(9,731)</b>	<b>(17,023)</b>	<b>(59,608)</b>	<b>(27,082)</b>
Capex	(1,795)	(277)	(416)	(4,063)	(3,852)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	(1,342)	1,549	1,122		
Other Investing Cashflow	1,075	871	806	1,100	1,200
<b>Cash Flow From Investing</b>	<b>(2,062)</b>	<b>2,143</b>	<b>1,513</b>	<b>(2,963)</b>	<b>(2,652)</b>
Debt Raised/(repaid)	4,888	5,751	15,049	60,472	27,398
Proceeds From Issue Of Shares	180	105	162		
Shares Repurchased					
Dividends Paid	(160)	(160)	(176)	(194)	(213)
Preferred Dividends					
Other Financing Cashflow	1,146	(80)	66	209	
<b>Cash Flow From Financing</b>	<b>6,054</b>	<b>5,616</b>	<b>15,101</b>	<b>60,487</b>	<b>27,185</b>
Total Cash Generated	234	(1,972)	(409)	(2,084)	(2,549)
<b>Free Cashflow To Equity</b>	<b>(932)</b>	<b>(1,837)</b>	<b>(461)</b>	<b>(2,099)</b>	<b>(2,336)</b>
<b>Free Cashflow To Firm</b>	<b>(1,560)</b>	<b>(3,335)</b>	<b>(10,811)</b>	<b>(54,456)</b>	<b>(22,429)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	9,445	7,473	7,063	4,980	2,430
Total Debtors	44,359	58,501	79,223	174,035	210,418
Inventories	3,536	4,808	7,644	7,908	8,304
Total Other Current Assets	14,208	16,553	16,368	17,591	18,026
<b>Total Current Assets</b>	<b>71,548</b>	<b>87,335</b>	<b>110,299</b>	<b>204,514</b>	<b>239,177</b>
Fixed Assets	18,004	14,816	12,698	11,951	10,919
Total Investments	5,786	4,237	3,327	3,115	3,115
Intangible Assets					
Total Other Non-Current Assets	415	60			
<b>Total Non-current Assets</b>	<b>24,205</b>	<b>19,114</b>	<b>16,025</b>	<b>15,066</b>	<b>14,034</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	21,323	20,516	18,556	46,776	47,528
<b>Total Current Liabilities</b>	<b>21,323</b>	<b>20,516</b>	<b>18,556</b>	<b>46,776</b>	<b>47,528</b>
Total Long-term Debt	43,903	49,654	64,703	125,175	152,573
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>43,903</b>	<b>49,654</b>	<b>64,703</b>	<b>125,175</b>	<b>152,573</b>
Total Provisions			212	212	212
<b>Total Liabilities</b>	<b>65,226</b>	<b>70,170</b>	<b>83,471</b>	<b>172,163</b>	<b>200,312</b>
Shareholders Equity	30,532	36,281	42,850	47,417	52,899
Minority Interests	(5)	(2)			
<b>Total Equity</b>	<b>30,527</b>	<b>36,279</b>	<b>42,850</b>	<b>47,417</b>	<b>52,899</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	5.4%	24.5%	10.4%	14.0%	4.3%
Operating EBITDA Growth	16.8%	7.9%	4.3%	24.1%	2.0%
Operating EBITDA Margin	24.6%	21.3%	20.1%	21.9%	21.4%
Net Cash Per Share (Rs)	(134.32)	(164.42)	(224.68)	(468.53)	(585.26)
BVPS (Rs)	119.01	141.42	167.03	184.83	206.20
Gross Interest Cover	2.48	2.69	2.87	1.85	2.10
Effective Tax Rate	33.4%	27.9%	31.2%	40.7%	38.6%
Net Dividend Payout Ratio	2.2%	2.0%	1.8%	2.4%	2.3%
Accounts Receivables Days	253.67	260.43	315.92	509.82	741.84
Inventory Days	50.49	47.69	45.10	89.45	89.38
Accounts Payables Days					
ROIC (%)	20.8%	19.3%	18.1%	15.5%	9.3%
ROCE (%)	15.2%	14.3%	13.9%	10.7%	8.1%
Return On Average Assets	12.9%	12.2%	12.3%	9.3%	7.0%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Outstanding Orderbook	116,480	146,630	156,760	176,219	193,183
Orderbook Replenishment	79,444	93,205	80,738	98,540	100,000

SOURCE: INCRED RESEARCH, COMPANY REPORTS



India

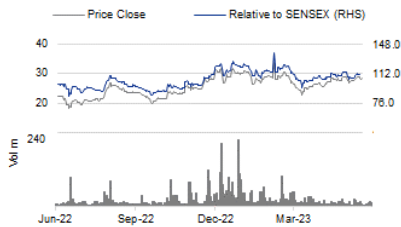
**HOLD** (no change)

Consensus ratings\*: Buy 6 Hold 3 Sell 0

Current price:	Rs29
Target price:	Rs30
Previous target:	Rs30
Up/downside:	3.4%
InCred Research / Consensus:	5.3%

Reuters:	
Bloomberg:	IRB IN
Market cap:	US\$2,383m
	Rs173,017m
Average daily turnover:	US\$12.4m
	Rs902.0m
Current shares o/s:	351.5m
Free float:	66.0%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.1	(6.5)	27.6
Relative (%)	(0.1)	(10.7)	10.9

Major shareholders	% held
Promoter and Promoter Group	34.0
Cintra Investments	24.9
Bricklayers Investment	16.9

Analyst(s)



**Rajarshi MAITRA**

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

# IRB Infrastructure Developers Ltd

## Trading at fair valuation

- Strong order book (OB) cover, including O&M projects, augurs well.
- Maintain HOLD rating on the stock with an unchanged target price of Rs30.

### Strong order book cover (including O&M projects) augurs well

While IRB Infrastructure Developers or IRB's EPC OB-to-sales ratio was 2.3x in Mar 2023 (vs. 2.7x in Mar 2022), it has operations & maintenance (O&M) contracts worth ~Rs250bn after winning the Hyderabad outer ring road (ORR) toll operate and transfer (TOT) project in May 2023 (O&M value of Rs145bn). We believe that O&M contracts can provide Rs10-15bn revenue p.a. The EPC OB (Rs88bn) is likely to be completely executed in FY24F as the appointment date for the Rs66bn Ganga Expressway project was received in Oct 2022. IRB's equity requirement is Rs26bn (Rs10.8bn for Ganga Expressway and Rs15bn for Hyderabad ORR TOT). IRB's EPC OB-to-sales ratio is lower than the industry average (2.8x). We forecast a 13% EPC sales CAGR over FY23-25F (vs. -7% CAGR over FY20-23). We expect the EPC OB/sales ratio to be 1.7x in FY25F.

### Leveraging balance sheet strength to take up TOT project

In May 2023, IRB received the TOT of Hyderabad ORR project (eight-lane 158km expressway) for 30 years. IRB will pay an upfront concession fee of Rs73.8bn. The project has been operational since Dec 2012. IRB plans to implement this project through its private InvIT (IRB has a 51% stake in it). Toll collection stood at Rs5.4bn in FY23, growing at a 15% CAGR (four years). Around 60% of the toll collection was from cars and light commercial vehicles. IRB expects an equity internal rate of return or IRR of 16%. The project will increase IRB's debt by ~Rs42bn.

### Fund-raising provides growth capital

Government of Singapore Investment Corporation (GIC) has invested Rs44bn (FY20-21) in nine IRB assets (transferred to a private InvIT) for a 49% equity stake. IRB completed Rs54bn equity-raising in Jan 2022 for a 41.8% stake. Thus, the net debt (ex-investments)/EBITDA ratio fell from 4.6x in FY21 to 3.5x in FY23. Going ahead, we expect the net debt (ex-investments)/EBITDA ratio to be in a reasonable range, despite capital commitment of Rs140bn, due to (a) sound balance sheet, and (b) the projects being a part of the private InvIT, where IRB has a 51% stake, and the assets not consolidated in IRB's accounts.

### Maintain HOLD rating with a target price of Rs30

We value IRB's EPC business at 4x FY25F EV/EBITDA, which we believe is a fair multiple as (a) IRB's OB comprises entirely in-house projects, and (b) IRB's EPC EBITDA margin is ~25% vs. third-party EPC players' EBITDA margin of ~12%. We have valued IRBIF projects at 1x P/BV, IRB's stake in IRB InvIT at the current market price and IRB's BOT projects using the discounted cash flow method. Strong order wins (vs. our estimate of Rs30bn in FY24) is an upside risk while capex overrun in BOT projects is a downside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	52,986	58,037	59,246	71,246	75,862
Operating EBITDA (Rsm)	25,127	27,975	28,020	36,634	39,134
Net Profit (Rsm)	1,171	3,614	7,200	8,182	11,533
Core EPS (Rs)	0.7	1.2	0.8	1.4	1.9
Core EPS Growth	(49.8%)	58.7%	(27.2%)	60.8%	41.0%
FD Core P/E (x)	39.29	24.76	34.00	21.15	15.00
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	8.56	8.69	9.66	6.68	5.73
P/FCFE (x)	13.80	(2.67)	26.83	15.23	11.91
Net Gearing	235.4%	123.6%	111.4%	92.7%	72.4%
P/BV (x)	1.46	1.38	1.29	1.22	1.13
ROE	3.8%	5.7%	3.9%	5.9%	7.8%

% Change In Core EPS Estimates  
InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Trading at fair valuation

**Figure 40: IRB's consolidated balance sheet**

(Rs bn)	FY20	FY21	FY22	FY23	FY24F	FY25F
Equity	67	69	126	134	142	152
Net Debt	69	162	155	149	150	130
Other Liabilities	0	0	1	1	1	1
<b>Source of Funds</b>	<b>136</b>	<b>231</b>	<b>282</b>	<b>284</b>	<b>292</b>	<b>283</b>
Gross fixed assets ex-Premium payable	82	163	179	188	189	190
Net fixed assets ex-Premium payable	70	144	154	154	145	135
Investments	41	48	49	51	77	77
NWC ex-cash	(10)	(4)	27	27	18	20
Receivables from IRBIF	35	43	51	51	51	51
<b>Application of funds</b>	<b>136</b>	<b>231</b>	<b>282</b>	<b>284</b>	<b>292</b>	<b>283</b>
<b>Net Debt (ex-investments) / EBITDA (x)</b>	<b>0.9</b>	<b>4.6</b>	<b>3.8</b>	<b>3.5</b>	<b>2.0</b>	<b>1.3</b>
<b>EBIT/ Interest (x)</b>	<b>1.4</b>	<b>1.0</b>	<b>1.0</b>	<b>1.5</b>	<b>1.4</b>	<b>1.6</b>
<b>Net Debt/ Equity (x)</b>	<b>1.0</b>	<b>2.4</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>0.9</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 41: Key EPC segment's financials**

(Rs bn)	FY20	FY21	FY22	FY23	FY24F	FY25F
Closing OB	120	146	161	206	334	345
Closing EPC OB	47	77	105	88	72	83
Order Flow		63	54	84	175	60
Sales	51	37	39	39	46	49
yoy growth %		(27)	6	(2)	20	6
OB/ TTM sales (x)	2.3	3.9	4.1	5.3	7.2	7.0
EPC OB/ TTM Sales (x)	0.9	2.1	2.7	2.3	1.6	1.7

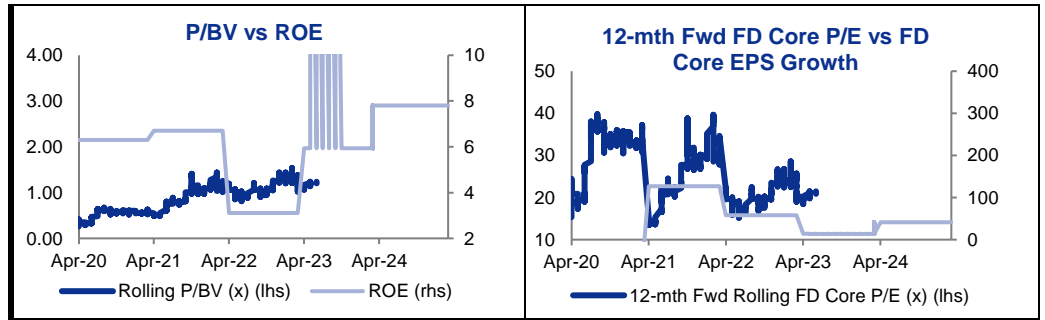
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 42: SOTP-based target price**

	(Rs bn)	(Rs/ share)	Comments
IRBIF Equity valuation (51% stake)	49	8.1	Implied valuation of 1x PBV
IRB BOT projects Equity value	93	15.4	DCF
IRB's stake in IRB InvT (public InvT)	8	1.3	Valued at current market price
EPC segment's EV	59	9.8	Valued at 4x EV/EBITDA FY25F
Claims from NHAI filed by IRBIF	26	4.2	Valued at 50% of claim amount
Net Debt ex-BOT	(51)	(8.4)	
<b>Target valuation</b>	<b>183</b>	<b>30.3</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>52,986</b>	<b>58,037</b>	<b>59,246</b>	<b>71,246</b>	<b>75,862</b>
<b>Gross Profit</b>	<b>31,368</b>	<b>34,252</b>	<b>34,792</b>	<b>42,747</b>	<b>45,517</b>
<b>Operating EBITDA</b>	<b>25,127</b>	<b>27,975</b>	<b>28,020</b>	<b>36,634</b>	<b>39,134</b>
Depreciation And Amortisation	(5,817)	(6,828)	(8,321)	(10,173)	(10,686)
<b>Operating EBIT</b>	<b>19,310</b>	<b>21,147</b>	<b>19,699</b>	<b>26,461</b>	<b>28,449</b>
Financial Income/(Expense)	(13,586)	(12,740)	(12,087)	(16,422)	(14,773)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>5,724</b>	<b>8,408</b>	<b>7,612</b>	<b>10,039</b>	<b>13,675</b>
Exceptional Items	(3,107)	(2,911)	3,157		
<b>Pre-tax Profit</b>	<b>2,616</b>	<b>5,496</b>	<b>10,769</b>	<b>10,039</b>	<b>13,675</b>
Taxation	(1,445)	(1,882)	(3,569)	(2,711)	(3,692)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,171</b>	<b>3,614</b>	<b>7,200</b>	<b>7,328</b>	<b>9,983</b>
Minority Interests				854	1,550
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,171</b>	<b>3,614</b>	<b>7,200</b>	<b>8,182</b>	<b>11,533</b>
Recurring Net Profit	2,563	5,528	5,089	8,182	11,533
<b>Fully Diluted Recurring Net Profit</b>	<b>2,563</b>	<b>5,528</b>	<b>5,089</b>	<b>8,182</b>	<b>11,533</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>25,127</b>	<b>27,975</b>	<b>28,020</b>	<b>36,634</b>	<b>39,134</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(6,424)	(30,828)	118	8,713	(1,233)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(3,107)	(2,911)	3,157		
Other Operating Cashflow					
Net Interest (Paid)/Received	(13,586)	(12,740)	(12,087)	(16,422)	(14,773)
Tax Paid	(1,862)	(1,782)	(2,500)		
<b>Cashflow From Operations</b>	<b>147</b>	<b>(20,286)</b>	<b>16,708</b>	<b>28,925</b>	<b>23,128</b>
Capex	(80,329)	(16,852)	(8,436)	(1,197)	(577)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(6,531)	(1,053)	(2,367)	(8,344)	
<b>Cash Flow From Investing</b>	<b>(86,859)</b>	<b>(17,905)</b>	<b>(10,804)</b>	<b>(9,541)</b>	<b>(577)</b>
Debt Raised/(repaid)	94,010	(13,092)	544	(8,021)	(8,021)
Proceeds From Issue Of Shares		53,500			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(6,614)	(8,169)	(2,602)	(1,923)	(2,037)
<b>Cash Flow From Financing</b>	<b>87,395</b>	<b>32,239</b>	<b>(2,058)</b>	<b>(9,944)</b>	<b>(10,058)</b>
Total Cash Generated	683	(5,951)	3,847	9,440	12,493
<b>Free Cashflow To Equity</b>	<b>7,297</b>	<b>(51,282)</b>	<b>6,449</b>	<b>11,363</b>	<b>14,530</b>
<b>Free Cashflow To Firm</b>	<b>(71,238)</b>	<b>(19,934)</b>	<b>21,009</b>	<b>37,831</b>	<b>40,116</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	23,390	17,438	24,171	33,677	46,065
Total Debtors	14,119	15,934	17,694	15,000	15,972
Inventories	3,217	3,175	2,990	3,596	3,829
Total Other Current Assets	2,546	15,582	15,360	18,471	19,668
<b>Total Current Assets</b>	<b>43,271</b>	<b>52,130</b>	<b>60,215</b>	<b>70,743</b>	<b>85,533</b>
Fixed Assets	144,287	154,312	154,427	145,450	135,342
Total Investments	47,989	49,042	51,409	59,754	59,754
Intangible Assets					
Total Other Non-Current Assets	42,725	51,158	51,158	51,158	51,158
<b>Total Non-current Assets</b>	<b>235,002</b>	<b>254,512</b>	<b>256,994</b>	<b>256,362</b>	<b>246,253</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	7,146	3,817	5,022	6,040	6,431
Other Current Liabilities	16,274	3,585	3,851	12,569	13,346
<b>Total Current Liabilities</b>	<b>23,420</b>	<b>7,402</b>	<b>8,873</b>	<b>18,608</b>	<b>19,777</b>
Total Long-term Debt	185,821	172,729	173,273	165,252	157,231
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>185,821</b>	<b>172,729</b>	<b>173,273</b>	<b>165,252</b>	<b>157,231</b>
Total Provisions	24	854	1,274	1,274	1,274
<b>Total Liabilities</b>	<b>209,265</b>	<b>180,985</b>	<b>183,420</b>	<b>185,134</b>	<b>178,282</b>
Shareholders Equity	69,008	125,656	133,789	141,971	153,504
Minority Interests					
<b>Total Equity</b>	<b>69,008</b>	<b>125,656</b>	<b>133,789</b>	<b>141,971</b>	<b>153,504</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(22.7%)	9.5%	2.1%	20.3%	6.5%
Operating EBITDA Growth	(15.4%)	11.3%	0.2%	30.7%	6.8%
Operating EBITDA Margin	47.4%	48.2%	47.3%	51.4%	51.6%
Net Cash Per Share (Rs)	(46.22)	(25.71)	(24.69)	(21.79)	(18.41)
BVPS (Rs)	19.64	20.81	22.15	23.51	25.42
Gross Interest Cover	1.25	1.16	1.30	1.43	1.62
Effective Tax Rate	55.2%	34.2%	33.1%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	88.31	94.50	103.59	83.75	74.51
Inventory Days	55.13	49.04	46.00	42.17	44.65
Accounts Payables Days	123.13	84.12	65.97	70.84	75.00
ROIC (%)	20.4%	11.5%	8.5%	11.4%	13.2%
ROCE (%)	10.3%	9.6%	7.5%	9.2%	10.1%
Return On Average Assets	7.7%	6.6%	5.2%	7.4%	7.5%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Outstanding Orderbook	77,488	104,595	88,049	71,816	82,743
Sales grth (%)	(22.7%)	9.5%	2.1%	20.3%	6.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

**ADD** (no change)

Consensus ratings\*: Buy 3 Hold 2 Sell 1

Current price:	Rs215
Target price:	Rs350
Previous target:	Rs350
Up/downside:	62.8%
InCred Research / Consensus:	39.6%

Reuters:	
Bloomberg:	DBL IN
Market cap:	US\$434m
	Rs31,502m
Average daily turnover:	US\$3.0m
	Rs215.2m
Current shares o/s:	136.8m
Free float:	29.9%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	20.6	8.2	(8.4)
Relative (%)	17.3	3.8	(19.6)

Major shareholders	% held
Promoter & Promoter Group	70.2
HDFC Trustee Company Ltd	5.9
LIC of India	3.0

Analyst(s)



**Rajarshi MAITRA**

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

# Dilip Buildcon Ltd

## Margin uptick is key; trading at trough valuation

- Dilip Buildcon (DBL) posted an order book (OB)-to-sales ratio of 2.5x in Mar 2023. Commencing construction activity for all the orders in the OB is key.
- Retain ADD rating with an unchanged target price of Rs350. We value the EPC business at 5x FY25F EV/EBITDA, lower than its 5-year median (5.9x).

### Starting construction activity for entire orders in its order book is key

Dilip Buildcon or DBL's order book or OB-to-sales ratio stood at 2.5x in Mar 2023 vs. 2.8x in Mar 2022. Hybrid Annuity Model (HAM) projects accounted for ~40% of the OB worth Rs254bn and thus, DBL must fund 24% of the OB (Rs14bn equity, remaining via debt). Also, DBL will infuse Rs5bn equity in its Siarmal coal project. Roads, bridges & tunnels/irrigation/ mining sectors accounted for 50%/ 26%/ 18% of DBL's OB, respectively. DBL's OB-to-sales ratio is a tad lower than the industry average (2.8x). Orders won in FY23 comprised 40% of its OB and construction is yet to begin for 50% of its OB (as of end-Dec 2022). We forecast a 4% EPC sales CAGR over FY23-25F (vs. a 4% CAGR over FY20-23). We expect OB/sales ratio of 1.8x in FY25F vs. 2.5x in FY23. The EBITDA margin in FY23 was at 9.8% vs. 17.5% in FY20. We factor in a 13% margin in FY25F. DBL is optimistic of the high margin going ahead as most low-margin old projects have been completed. Please note that DBL won projects worth Rs17bn in 4QFY23.

### Leverage to be within a reasonable range over FY24F-25F

Standalone RoCE declined from 21% in FY20 to 5% in FY22 due to a sharp decline in the EBIT margin, from 12.8% in FY20 to 4% in FY22. We expect standalone ROCE to rise to 15.8% in FY25F, driven by a 9.1% EBIT margin. The standalone net debt/EBITDA ratio fell from 5.3x in Mar 2022 to 3.3x in FY23. The high leverage in FY22 was due to muted EBITDA. We expect the net debt/EBITDA ratio to be manageable over FY24F-25F. DBL has signed a deal with Shrem InvIT (in Mar 2022) to transfer equity in 10 HAM projects (three completed), after their construction, for Rs23.5bn. Of these, eight projects have been divested (100% stake in five projects and a 49% stake in three projects) in FY23 (Rs4.5bn cash and Rs8.7bn invit units received). The remaining sum of Rs10.3bn will be received in phases.

### Retain ADD rating with an unchanged target price of Rs350

We believe DBL trades at a trough valuation (standalone 3.2x FY24F EV/EBITDA vs. five-year median of 5.9x). We maintain our estimates, ADD rating and sum-of-the-parts or SOTP-based target price of Rs350. We value the EPC business at 5x FY25F EV/EBITDA, lower than its five-year median (5.9x). Capex overrun in HAM projects is a downside risk.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	101,683	95,664	106,436	119,127	119,484
Operating EBITDA (Rsm)	21,284	7,726	9,566	17,849	17,902
Net Profit (Rsm)	4,183	(5,497)	(14)	1,916	1,065
Core EPS (Rs)	28.2	(34.7)	(26.0)	13.1	7.3
Core EPS Growth	15.3%	(223.0%)	(25.1%)	(150.4%)	(44.4%)
FD Core P/E (x)	7.04	(5.55)	(2,286.73)	16.44	29.57
DPS (Rs)	1.0	0.1	1.0	1.0	1.0
Dividend Yield	0.56%	0.06%	0.56%	0.56%	0.56%
EV/EBITDA (x)	6.57	16.95	11.55	13.02	12.27
P/FCFE (x)	10.55	(26.13)	(3.51)	(7.89)	3.50
Net Gearing	282.8%	282.9%	197.4%	481.3%	441.2%
P/BV (x)	0.87	0.89	0.79	0.75	0.74
ROE	11.7%	(14.2%)	(10.1%)	4.7%	2.5%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Margin uptick is key; trading at trough valuation

**Figure 43: Projects where construction is yet to start (as of Dec 22 OB position)**

Project name	Awarded by	Type	Value (Rs m)
Construction of Kharkai Dam at Icha	Water Resource Dept.	EPC	8,664
Development and Operation of Siamal OCP (MDO Project)	Mahanadi Coalfields Ltd.	Mining	10,846
Amadand OCP (OB Removal Project)	South Eastern Coalfields Ltd.	Mining	22,737
Sargi - Basanwahi	NHAI	HAM	9,252
Karimnagar Warangal	NHAI	HAM	12,026
Maradgi S Andola to Baswantpur	NHAI	HAM	11,669
Mehgama-Hansdiha	NHAI	HAM	6,919
Urga-Pathalgaon	NHAI	HAM	14,003
Ahmedabad Metro Rail Project, Phase-2 (Package C3)	Gujarat Metro Rail Corporation	EPC	7,235
Kodur to Vanavolu (Bengaluru – Vijaywada Economic Corridor) (Package 1)	NHAI	HAM	4,316
Odulapalle to Nallacheruvu (Bengaluru – Vijaywada Economic Corridor) (Package 4)	NHAI	HAM	5,574
Rewa Bansagar Multi-Village Water Supply Scheme	Madhya Pradesh Jal Nigam Maryadit	EPC	19,470
<b>Total</b>			<b>1,32,713</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 44: DBL's order book, order flow and order book cover over FY20-25F**

(Rs bn)	FY20	FY21	FY22	FY23	FY24F	FY25F
Closing Order bk	191	274	256	254	196	199
Order Flow	69	175	72	99	51	112
Sales	90	92	90	101	109	109
yoy growth %		3	(2)	12	8	-
OB/ TTM Sales (x)	2.1	3.0	2.8	2.5	1.8	1.8
EBITDA margin %	17.5	16.0	8.4	9.8	13.0	13.0
EBITDA margin ex-bonus %	16.4	15.8	8.4	9.8	13.0	13.0
NWC/ Sales %	39	43	56	51	48	49
OB from Roads & bridges	69	66	59	50		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 45: Key standalone financial ratios**

(%)	FY20	FY21	FY22	FY23	FY24F	FY25F
RoCE	20.6	18.0	5.3	9.0	15.6	15.8
EBIT margin	12.8	11.5	4.0	5.9	9.3	9.1
NFA/ Sales	22.6	20.8	18.4	13.2	10.3	8.3
NWC / Sales	37.7	48.4	62.4	47.1	53.0	44.0
Interest rate	15.5	13.8	13.6	13.0	13.0	13.0
Net Debt/ EBITDA (x)	2.3	2.9	5.3	3.3	3.4	2.4
EV/ EBITDA - EPC (x)				4.7	3.2	3.2

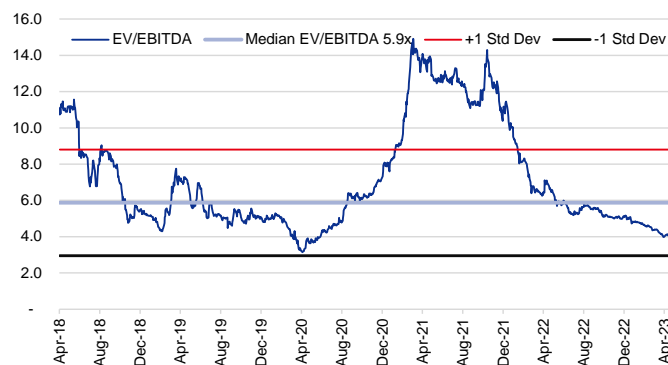
NOTE: NET DEBT CALCULATED AS DEBT – CASH  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 46: Key consolidated financial ratios**

(%)	FY20	FY21	FY22	FY23	FY24F	FY25F
RoCE	12.2	11.9	2.9	4.8	5.7	5.9
RoE	12.7	12.3	(15.5)	(0.0)	4.6	2.5
Interest rate	11.7	10.6	9.6	9.5	8.0	6.2
Net Debt/ EBITDA (x)	4.8	5.0	13.0	8.3	11.3	10.5
EBIT/ Interest (x)	1.4	1.4	0.4	0.6	1.2	1.1
Net Debt/ Equity (x)	3.0	2.8	2.8	2.0	4.8	4.4
EV/ EBITDA (x)				11.5	6.2	6.1
PE (x)				(2,239.5)	16.1	29.0
PBV (x)				0.8	0.7	0.7

NOTE: NET DEBT CALCULATED AS DEBT – CASH – INVESTMENTS  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 47: Median EV/EBITDA of 5.9x over the last five years; stock currently trades at 3.2x FY24F EV/EBITDA**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

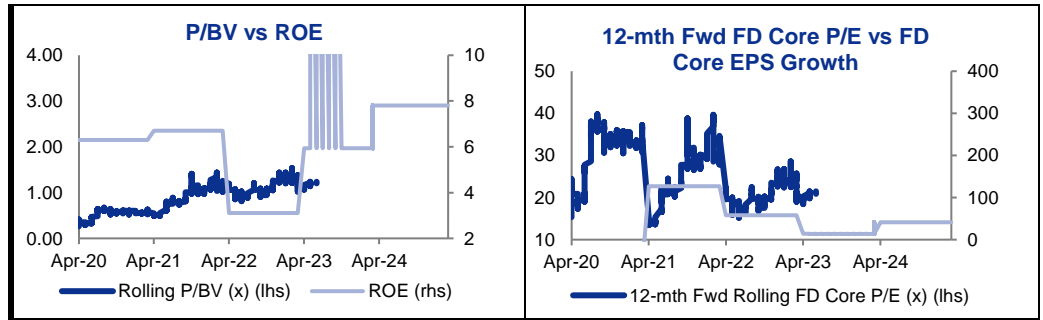
**Figure 48: SOTP-based target price**

	(Rs bn)	Rs/ share	Comments
EPC business target EV	71	487	Valued at 5x EV/EBITDA FY25F
Investments in BOT/ HAM/ MDO	28	191	Valued at book
Less : Net Debt (FY24F)	-48	-327	
<b>Total</b>	<b>51</b>	<b>350</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>101,683</b>	<b>95,664</b>	<b>106,436</b>	<b>119,127</b>	<b>119,484</b>
<b>Gross Profit</b>	<b>25,961</b>	<b>12,954</b>	<b>13,335</b>	<b>35,022</b>	<b>35,379</b>
<b>Operating EBITDA</b>	<b>21,284</b>	<b>7,726</b>	<b>9,566</b>	<b>17,849</b>	<b>17,902</b>
Depreciation And Amortisation	(4,429)	(3,998)	(3,985)	(4,155)	(4,345)
<b>Operating EBIT</b>	<b>16,854</b>	<b>3,728</b>	<b>5,581</b>	<b>13,694</b>	<b>13,557</b>
Financial Income/(Expense)	(11,733)	(10,570)	(9,014)	(11,419)	(12,429)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	422	384	680	800	800
<b>Profit Before Tax (pre-EI)</b>	<b>5,543</b>	<b>(6,457)</b>	<b>(2,753)</b>	<b>3,074</b>	<b>1,928</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>5,543</b>	<b>(6,457)</b>	<b>(2,753)</b>	<b>3,074</b>	<b>1,928</b>
Taxation	(1,681)	1,538	(1,048)	(1,158)	(863)
Exceptional Income - post-tax	321	(578)	3,787		
<b>Profit After Tax</b>	<b>4,183</b>	<b>(5,497)</b>	<b>(14)</b>	<b>1,916</b>	<b>1,065</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>4,183</b>	<b>(5,497)</b>	<b>(14)</b>	<b>1,916</b>	<b>1,065</b>
Recurring Net Profit	3,862	(4,919)	(3,801)	1,916	1,065
<b>Fully Diluted Recurring Net Profit</b>	<b>3,862</b>	<b>(4,919)</b>	<b>(3,801)</b>	<b>1,916</b>	<b>1,065</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>21,284</b>	<b>7,726</b>	<b>9,566</b>	<b>17,849</b>	<b>17,902</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,698)	(2,320)	5,078	(13,050)	9,687
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	321	(578)	3,787		
Other Operating Cashflow					
Net Interest (Paid)/Received	(11,311)	(10,186)	(8,334)	(10,619)	(11,629)
Tax Paid	(1,681)	1,538	(1,048)	(1,158)	(863)
<b>Cashflow From Operations</b>	<b>5,915</b>	<b>(3,819)</b>	<b>9,049</b>	<b>(6,978)</b>	<b>15,098</b>
Capex	(11,149)	11,159	5,025	(114,846)	(2,104)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(11,149)</b>	<b>11,159</b>	<b>5,025</b>	<b>(114,846)</b>	<b>(2,104)</b>
Debt Raised/(repaid)	8,028	(8,507)	(23,048)	117,830	(4,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(164)	(18)	(175)	(175)	(175)
Preferred Dividends					
Other Financing Cashflow	(2,428)	(1,085)	7,582		
<b>Cash Flow From Financing</b>	<b>5,436</b>	<b>(9,609)</b>	<b>(15,642)</b>	<b>117,655</b>	<b>(4,175)</b>
Total Cash Generated	202	(2,269)	(1,568)	(4,169)	8,818
<b>Free Cashflow To Equity</b>	<b>2,794</b>	<b>(1,167)</b>	<b>(8,974)</b>	<b>(3,994)</b>	<b>8,994</b>
<b>Free Cashflow To Firm</b>	<b>6,499</b>	<b>17,910</b>	<b>23,088</b>	<b>(110,405)</b>	<b>25,423</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

**Balance Sheet**

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	8,088	5,828	4,260	91	8,909
Total Debtors	36,184	22,811	21,881	26,152	26,295
Inventories	30,485	34,391	33,683	38,572	38,572
Total Other Current Assets	40,088	42,397	48,483	52,172	52,172
<b>Total Current Assets</b>	<b>114,846</b>	<b>105,428</b>	<b>108,307</b>	<b>116,987</b>	<b>125,948</b>
Fixed Assets	66,462	52,441	43,431	154,121	151,880
Total Investments					
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>66,462</b>	<b>52,441</b>	<b>43,431</b>	<b>154,121</b>	<b>151,880</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	31,098	21,621	31,145	30,945	40,775
<b>Total Current Liabilities</b>	<b>31,098</b>	<b>21,621</b>	<b>31,145</b>	<b>30,945</b>	<b>40,775</b>
Total Long-term Debt	114,787	106,281	83,232	201,063	197,063
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>114,787</b>	<b>106,281</b>	<b>83,232</b>	<b>201,063</b>	<b>197,063</b>
Total Provisions	(2,303)	(5,539)	(2,656)	(2,656)	(2,656)
<b>Total Liabilities</b>	<b>143,583</b>	<b>122,362</b>	<b>111,722</b>	<b>229,352</b>	<b>235,182</b>
Shareholders Equity	33,998	35,507	40,016	41,757	42,647
Minority Interests	3,727				
<b>Total Equity</b>	<b>37,725</b>	<b>35,507</b>	<b>40,016</b>	<b>41,757</b>	<b>42,647</b>

**Key Ratios**

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	4.6%	(5.9%)	11.3%	11.9%	0.3%
Operating EBITDA Growth	2.9%	(63.7%)	23.8%	86.6%	0.3%
Operating EBITDA Margin	20.9%	8.1%	9.0%	15.0%	15.0%
Net Cash Per Share (Rs)	(780.14)	(687.02)	(540.11)	(1,374.49)	(1,286.83)
BVPS (Rs)	248.58	242.84	273.68	285.58	291.67
Gross Interest Cover	1.44	0.35	0.62	1.20	1.09
Effective Tax Rate	30.3%			37.7%	44.8%
Net Dividend Payout Ratio	3.0%	(0.3%)	(6.4%)	5.7%	9.1%
Accounts Receivables Days	129.30	112.55	76.63	73.58	80.11
Inventory Days	137.23	143.15	133.44	156.79	167.40
Accounts Payables Days					
ROIC (%)	12.9%	2.6%	4.3%	11.8%	5.6%
ROCE (%)	11.7%	2.6%	4.3%	7.6%	5.7%
Return On Average Assets	10.0%	2.4%	4.0%	6.9%	5.2%

**Key Drivers**


	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Outstanding Orderbook (Rs m)	274,114	255,945	253,950	196,067	199,251
Orderbook Replenishment (Rs m)	175,387	71,892	99,200	66,124	112,410

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

**HOLD** (no change)

Consensus ratings\*: Buy 0 Hold 1 Sell 0

Current price: Rs71  
 Target price:  Rs73  
 Previous target: Rs73  
 Up/downside: 2.8%  
 InCred Research / Consensus: 0.0%

Reuters:  
 Bloomberg: IRBINVIT IN  
 Market cap: US\$571m  
 Rs41,430m  
 Average daily turnover: US\$0.4m  
 Rs31.8m  
 Current shares o/s: 580.5m  
 Free float: 84.0%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.1)	2.4	29.8
Relative (%)	(2.2)	(2.2)	12.9

Major shareholders	% held
IRB Infrastructure	16.0
Government of Singapore	7.8
Aditya Birla Sun Life Asset Mgmt	6.4

Analyst(s)



Rajarshi MAITRA

T (91) 22 4161 1546

E rajarshi.maitra@incredcapital.com

# IRB InvIT Fund

## Strong traffic in FY23; stock upside is limited

- IRB InvIT Fund trades at an IRR of 9%, considering its 4.5% long-term traffic growth.
- Maintain HOLD rating on the stock with an unchanged target price of Rs73.

### Yield for FY22 is misleading as IRR is the key metric to track

IRB InvIT Fund's assets have a blended traffic track record/residual life of 8/14 years, respectively. The payout in FY23 was Rs8.05/unit. Based on the CMP (Rs72), this implies a yield of 11% in FY23F. This is despite the end-of-concession periods for Bharuch-Surat and Surat-Dahisar toll projects in Mar/Jun 2022, respectively. These two projects together contributed 55% to IRB InvIT Fund's FY22 EBITDA. We believe the IRB InvIT Fund trades at a fair valuation with an internal rate of return or IRR of 9% with the long-term traffic growth estimated at 4.5% p.a., a tad lower than the 7.4% yoy traffic growth in 2HFY23.

### 4QFY23 driven by tariff hike and robust traffic

The gross toll revenue of four assets (ex-Pathankot Amritsar - PA, Bharuch Surat – BS, Surat Dahisar – SD and Vadodara Kim – VK1) grew by 16% yoy. This was driven by (a) 6.5% yoy traffic growth at these projects, and (b) tariff hike of 10% in these four projects since Apr 2022, and 15% in Omalur Salem Namakkal (OSN) from Sep 2022. In our analysis, we have excluded: (1) PA - no tolling from 1 Oct 2020 to 16 Dec 2021 due to farmers' protest and tolling suspension from 15 Dec 2022 to 15 Jan 2023. (2) BS / SD - concessions ended in Mar 2022/ May 2022, respectively. (3) VK1 - acquired in Oct 2022.

### Healthy balance sheet has room to raise debt to fund acquisitions

On 13 Oct 2022, IRB InvIT Fund acquired a 100% stake in Vadorara Kim 1 (VK1) asset from IRB Infra (sponsor) for Rs3.4bn (EV of Rs13bn). The capex ex-grant is ~Rs12.3bn, implying an EV/ capex ratio of ~1x. FY23 net debt/ EBITDA stands at 3x and EBIT/ interest at 3x. Based on the CMP and InvIT regulations, IRB InvIT Fund can have debt of up to Rs98bn (70% of asset value) vs. net debt of Rs25bn post-acquisition of VK1. Thus, further acquisitions of up to ~Rs73bn can be funded via debt, beyond which raising of equity is required.

### Retain our estimates, target price of Rs73 and HOLD rating

We forecast (a) long-term traffic growth of 4.5% p.a. (3.5% p.a. earlier) due to strong traffic growth in 2HFY23, and (b) long-term Wholesale Price Index or WPI inflation of 5% p.a. Based on the CMP, we believe the stock trades at an internal rate of return or IRR of 9%. We have used a discount rate of 10.7% based on a beta of 1x and target debt/ equity ratio of 1x. Our discounted cash flow or DCF-based unchanged target price of Rs73 includes an Rs8/unit payout estimated in FY24F. We retain our HOLD rating on the stock. The downside risk is local events like the construction of a parallel road which could negatively affect traffic on IRB InvIT Fund's roads while the sustained strong growth in traffic is an upside risk.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	11,041	12,900	10,180	11,221	12,129
Operating EBITDA (Rsm)	9,385	10,484	8,237	9,607	10,112
Net Profit (Rsm)	1,808	3,028	3,764	2,745	3,232
Core EPS (Rs)	3.1	5.2	6.5	4.7	5.6
Core EPS Growth	4.7%	67.4%	24.3%	(27.1%)	17.8%
FD Core P/E (x)	22.91	13.68	11.01	15.09	12.82
DPS (Rs)	8.5	9.0	8.0	5.8	4.2
Dividend Yield	11.91%	12.61%	11.21%	8.17%	5.84%
EV/EBITDA (x)	6.02	5.10	8.01	6.69	6.04
P/FCFE (x)	5.58	4.95	2.51	12.24	17.13
Net Gearing	34.5%	29.1%	61.2%	58.0%	48.8%
P/BV (x)	0.95	1.00	1.03	1.05	1.03
ROE	4.0%	7.1%	9.2%	6.9%	8.1%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Strong traffic in FY23; stock upside is limited

Figure 49: Salient features of IRB InvIT Fund's toll road portfolio

Toll road	State	Awarded by	Concession start	Scope	Length (km)	Capex - road only (Rs bn)	Capex per Km constructed (Rs m)	Toll escalation
Jaipur- Deoli	Rajasthan	NHAI	14-Jun-10	2 to 4 Lanes	146	17.3	118.5	3%+40%*WPI
Tumkur- Chitradurg	Karnataka	NHAI	4-Jun-11	4 To 6 Lanes	114	11.4	100.2	3%+40%*WPI
Talegaon- Amravati	Maharashtra	NHAI	3-Sep-10	2 to 4 Lanes	67	8.9	133.8	3%+40%*WPI
Omalur-Salem-Namakkal	Tamil Nadu	NHAI	14-Aug-06	2 to 4 Lanes	69	3.1	44.8	WPI
Pathankot-Amritsar	Punjab	NHAI	31-Dec-10	2 to 4 Lanes	102	14.5	141.1	3%+40%*WPI
Vadodara Kim *	Gujarat	NHAI	9-May-18	8 Lanes	24	20.4	850.0	
<b>Total</b>					<b>522</b>	<b>75.6</b>	<b>145</b>	

\* HAM project, rest are toll-based projects

NOTE: WPI – WHOLESALE PRICE INDEX INFLATION  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 50: Net toll collection over FY22-23

(Rs m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
IJDTP (Jaipur- Deoli)	225	284	319	357	392	367	390	384
CAGR vs FY20 %	(8)	11	10	19	14	17	14	15
ITCTPL ( Tumkur- Chitradurg)	512	679	707	805	821	806	848	973
Growth vs FY20 %	(10)	7	8	19	9	11	12	19
ITATPL (Talegaon- Amravati)	169	199	203	210	233	212	234	207
Growth vs FY20 %	(5)	9	5	8	8	8	8	5
MITPL (Omalur-Salem-Namakkal)	164	230	260	264	272	282	251	324
Growth vs FY20 %	(9)	9	12	17	11	13	7	19
IPATRP (Pathankot-Amritsar)	-	-	53	361	412	327	295	328
Growth vs FY20 %	(100)	(100)	(60)	13	7	5	(4)	5
<b>Total</b>	<b>1,070</b>	<b>1,392</b>	<b>1,542</b>	<b>1,997</b>	<b>2,130</b>	<b>1,994</b>	<b>2,018</b>	<b>2,216</b>
<b>Growth vs FY20 %</b>	<b>(19)</b>	<b>(3)</b>	<b>(2)</b>	<b>16</b>	<b>10</b>	<b>11</b>	<b>8</b>	<b>14</b>
<b>Total ex-PA</b>	<b>1,070</b>	<b>1,392</b>	<b>1,489</b>	<b>1,636</b>	<b>1,718</b>	<b>1,667</b>	<b>1,723</b>	<b>1,888</b>
<b>Growth vs FY20 %</b>	<b>(8)</b>	<b>8</b>	<b>9</b>	<b>17</b>	<b>10</b>	<b>12</b>	<b>11</b>	<b>16</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 51: Recent tariff hike

	Tariff revision	Effective from
ITCTPL (Tumkur- Chitradurg)	10.2%	Apr-22
ITATPL (Talegaon- Amravati)	10.2%	Apr-22
IJDTP (Jaipur- Deoli)	10.2%	Apr-22
IPATRP(Pathankot-Amritsar)	10.2%	Apr-22
MITPL (Omalur-Salem-Namakkal)	14.9%	Sep-22

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 52: Balance sheet

(Rs bn)	FY22	FY23	yoy Change
Equity including sub-debt	41.4	40.1	(1.3)
Net external Debt	12.1	24.5	12.4
NHAI premium payable	57.1	55.0	(2.1)
<b>Total Liabilities</b>	<b>110.5</b>	<b>119.6</b>	
Net Fixed Assets	49.5	61.5	12.0
Premium to NHAI	61.6	59.6	(2.1)
NWC	(0.6)	(1.5)	(0.9)
<b>Total Assets</b>	<b>110.5</b>	<b>119.6</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS,

Figure 53: Key ratios

(x)	FY22	FY23
Net Debt (external) / EBITDA	1.1	3.0
EBIT/ Interest (external)	2.6	3.0
Net Debt (external) / Equity	0.3	0.6
Payout per unit (Rs)	9.0	8.1
P/BV		1.0
P/E		11.1
EV/EBITDA		8.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS,

**Figure 54: Our target EVs (Mar 2024F) for IRB InvIT Fund's assets** **Figure 55: DCF-wbased target price**

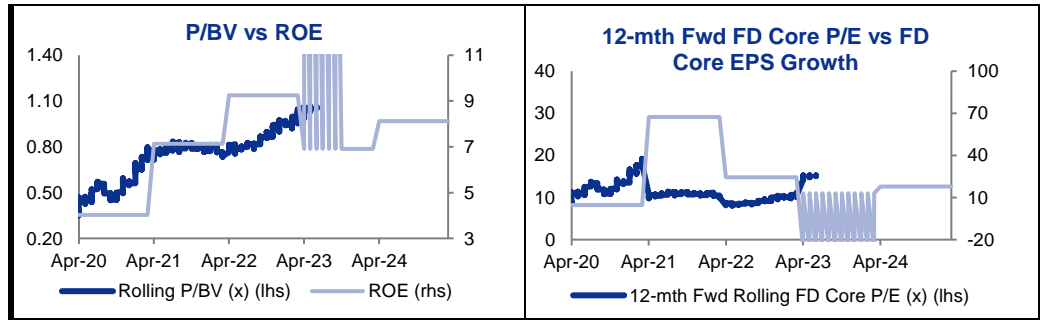
	Target EV Mar 24F (Rs. Bn)	EV/ EBITDA (x)	Remaining Life (years)
Jaipur- Deoli	17.3	13.9	17.4
Tumkur- Chitradurg	6.8	5.8	14.4
Talegaon- Amravati	8.6	8.8	14.0
Omalur-Salem-Namakkal	2.7	2.5	3.6
Pathankot-Amritsar	14.2	9.4	12.5
Vadodara-Kim	12.2	7.4	11.9
<b>Total</b>	<b>61.8</b>	<b>8.1</b>	<b>13.8</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS,

Particulars	Rs (bn)
Target EV (Mar 24F)	61.8
Net Debt (FY24F)	22.9
Add cash flow (FY24F)	3.4
Equity value	42.4
Target Price (Rs/share)	73

SOURCE: INCRED RESEARCH, COMPANY REPORTS,

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	11,041	12,900	10,180	11,221	12,129
<b>Gross Profit</b>	9,385	10,484	8,237	9,607	10,112
<b>Operating EBITDA</b>	9,385	10,484	8,237	9,607	10,112
Depreciation And Amortisation	(6,081)	(6,807)	(2,501)	(3,225)	(3,471)
<b>Operating EBIT</b>	3,304	3,677	5,736	6,382	6,641
Financial Income/(Expense)	(1,454)	(1,418)	(1,926)	(3,451)	(3,228)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	(42)	1,103			
<b>Profit Before Tax (pre-EI)</b>	1,808	3,361	3,810	2,931	3,413
Exceptional Items					
<b>Pre-tax Profit</b>	1,808	3,361	3,810	2,931	3,413
Taxation		(333)	(46)	(186)	(182)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	1,808	3,028	3,764	2,745	3,232
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	1,808	3,028	3,764	2,745	3,232
Recurring Net Profit	1,808	3,028	3,764	2,745	3,232
<b>Fully Diluted Recurring Net Profit</b>	1,808	3,028	3,764	2,745	3,232

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	9,385	10,484	8,237	9,607	10,112
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,177)	(1,074)	854		
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,496)	(315)	(1,926)	(3,451)	(3,228)
Tax Paid		(333)	(46)	(186)	(182)
<b>Cashflow From Operations</b>	5,712	8,761	7,119	5,970	6,703
Capex					
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(350)	(367)	(2,057)	(1,238)	(2,647)
<b>Cash Flow From Investing</b>	(350)	(367)	(2,057)	(1,238)	(2,647)
Debt Raised/(repaid)	2,058	(28)	11,421	(1,347)	(1,636)
Proceeds From Issue Of Shares		1			1
Shares Repurchased					
Dividends Paid	(4,934)	(5,225)	(4,644)	(3,385)	(2,419)
Preferred Dividends					
Other Financing Cashflow	4,270	4,119	612		
<b>Cash Flow From Financing</b>	1,393	(1,133)	7,389	(4,732)	(4,054)
Total Cash Generated	6,755	7,262	12,451		1
<b>Free Cashflow To Equity</b>	7,420	8,367	16,483	3,385	2,419
<b>Free Cashflow To Firm</b>	6,816	9,813	6,988	8,183	7,283

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	3,958	6,902	5,875	6,151	7,741
Total Debtors					
Inventories					
Total Other Current Assets	1,156	1,156	302	302	302
<b>Total Current Assets</b>	<b>5,114</b>	<b>8,059</b>	<b>6,176</b>	<b>6,453</b>	<b>8,043</b>
Fixed Assets	60,251	54,065	66,041	63,778	61,364
Total Investments					
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>60,251</b>	<b>54,065</b>	<b>66,041</b>	<b>63,778</b>	<b>61,364</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	2,847	1,773	1,773	1,773	1,773
<b>Total Current Liabilities</b>	<b>2,847</b>	<b>1,773</b>	<b>1,773</b>	<b>1,773</b>	<b>1,773</b>
Total Long-term Debt	18,987	18,959	30,380	29,033	27,397
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>18,987</b>	<b>18,959</b>	<b>30,380</b>	<b>29,033</b>	<b>27,397</b>
Total Provisions					
<b>Total Liabilities</b>	<b>21,834</b>	<b>20,733</b>	<b>32,153</b>	<b>30,807</b>	<b>29,170</b>
Shareholders Equity	43,531	41,392	40,064	39,424	40,237
Minority Interests					
<b>Total Equity</b>	<b>43,531</b>	<b>41,392</b>	<b>40,064</b>	<b>39,424</b>	<b>40,237</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(10.8%)	16.8%	(21.1%)	10.2%	8.1%
Operating EBITDA Growth	(8.8%)	11.7%	(21.4%)	16.6%	5.3%
Operating EBITDA Margin	85.0%	81.3%	80.9%	85.6%	83.4%
Net Cash Per Share (Rs)	(25.89)	(20.77)	(42.21)	(39.42)	(33.86)
BVPS (Rs)	74.99	71.30	69.02	67.91	69.31
Gross Interest Cover	2.27	2.59	2.98	1.85	2.06
Effective Tax Rate		9.9%	1.2%	6.4%	5.3%
Net Dividend Payout Ratio	272.8%	172.5%	123.4%	123.3%	74.8%
Accounts Receivables Days					
Inventory Days					
Accounts Payables Days					
ROIC (%)	5.4%	6.3%	10.7%	9.9%	10.7%
ROCE (%)	5.3%	6.0%	8.8%	9.2%	9.8%
Return On Average Assets	4.9%	7.0%	8.5%	8.7%	9.3%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Toll revenue grth (%)	(10.8%)	16.8%	(21.1%)	10.2%	8.1%
EBITDA grth (%)	(8.8%)	11.7%	(21.4%)	16.6%	5.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

---

## DISCLAIMER

---

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

#### Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.