

India

Neutral (no change)**Highlighted Companies****Dilip Buildcon Ltd****ADD, TP Rs350, Rs304 close**

An uptick in the EBITDA margin is key for a rerating. We believe the stock trades at an attractive valuation (standalone 4.2x FY24F EV/EBITDA vs. five-year median of 5.9x).

KNR Constructions Ltd**REDUCE, TP Rs235, Rs247 close**

We believe the stock trades at an expensive valuation (standalone 8x FY24F EV/EBITDA vs. five-year median of 7.3x), considering the slim order book and likely weak order inflow in FY24F.

NCC Ltd**REDUCE, TP Rs104, Rs153 close**

We believe the stock trades at an expensive valuation (standalone 7x 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	-7.84	-3228.7	23.21
KNR Constructions Ltd	18.98	15.82	12.43
NCC Ltd	19.33	15.53	12.57

P/BV (x)	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon Ltd	1.25	1.11	1.07
KNR Constructions Ltd	2.99	2.53	2.11
NCC Ltd	1.66	1.56	1.39

Dividend Yield	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon Ltd	0.04%	0.39%	0.39%
KNR Constructions Ltd	0.12%	0.25%	0.25%
NCC Ltd	1.57%	0.36%	0.44%

Construction

1QFY24 results review

- EPC EBITDA of companies under our coverage grew 30% yoy, significantly above sales growth (14% yoy), because of the rebound in DBL's margin.
- Order flow in 1QFY24 was lower than the run-rate in FY23.
- We have an ADD rating on Dilip Buildcon (DBL) & IRB Infra, a HOLD rating on IRB InvIT, & PNC Infra, and a REDUCE rating on NCC and KNR Constructions.

1QFY24 results – slow award of projects in FY24F is area of concern

EPC sales in 1QFY24 for the companies under our coverage grew on an average by 14% yoy. EBITDA grew 30% yoy, significantly above sales growth, because of the rebound in DBL's margin. The average order book or OB-to-sales ratio was at 2.6x, a tad lower than that in Mar 2023 (2.8x). Order inflow (Rs102bn) in 1QFY24 was lower than the run-rate in FY23 (Rs590bn). 18% of the latest OB must be funded by private road developers, lower than in FY19 (24%). Order inflow in FY23-1QFY24 accounted for 61% of the order book. We factor in a 9% average EPC sales CAGR (FY23-25F) vs. a 10% CAGR over FY20-23. When compared to the Mar 2023 OB-to-sales ratio, the latest OB-to-sales ratio is lower for PNC Infratech & KNR Constructions and similar for NCC, DBL & IRB Infrastructure. Among peers, NCC has the highest OB-to-sales ratio while IRB Infrastructure and KNR Constructions' OB-to-sales ratios are low.

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

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

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

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 PNC Infratech, 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, and on IRB Infrastructure as well valuing its EPC business at 4x FY25F EV/EBITDA. Strong order inflow in FY24F vs. our estimate is the upside risk to REDUCE/HOLD ratings.

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Figure 1: 1QFY24 results summary

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	16,342	8	1	7,778	12	3	1,338	40	2
IRB InvIT	2,644	-9	-6	2,198	-9	-4	1,006	-2	-17
Dilip Buildcon	26,084	-0	-9	3,348	63	23	834	2,879	131.7
PNC Infra	18,614	8	-12	2,451	11	-13	1,566	21	-15
NCC	38,383	30	-4	3,806	35	-10	1,623	35	-9
KNR Constructions	9,296	4	-21	1,733	5	-18	1,103	9	-14

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 results review

Figure 2: 1QFY24 results

Company	1QFY24	1QFY23	yoy %	4QFY23	qoq %
IRB Infra (Consolidated)					
Sales (Rs m)	16,342	15,066	8.5	16,200	0.9
EPC segment Sales including other income (Rs m)	11,329	10,500	7.9	11,514	(1.6)
BOT segment Sales including other income (Rs m)	6,126	5,274	16.2	5,475	11.9
EBITDA (Rs m)	7,778	6,926	12.3	7,587	2.5
EBITDA margin %	47.6	46.0		46.8	
Adj. PAT (Rs m)	1,338	954	40.3	1,307	2.4
IRB InvIT (Consolidated)					
Sales (Rs m)	2,644	2,911	(9.2)	2,810	(5.9)
EBITDA (Rs m)	2,198	2,425	(9.4)	2,280	(3.6)
EBITDA margin %	83.1	83.3		81.1	
Adj. PAT (Rs m)	1,006	1,028	(2.1)	1,209	(16.8)
Dilip Buildcon (Standalone)					
Sales (Rs m)	26,084	26,215	(0.5)	28,573	(8.7)
EBITDA (Rs m)	3,348	2,054	63.0	2,720	23.1
EBITDA margin %	12.8	7.8		9.5	
Adj. PAT (Rs m)	834	28	2,878.6	360	131.7
PNC Infra (Standalone)					
Sales (Rs m)	18,614	17,211	8.2	21,146	(12.0)
EBITDA (Rs m)	2,451	2,208	11.0	2,810	(12.8)
EBITDA margin %	13.2	12.8		13.3	
Adj. PAT (Rs m)	1,566	1,295	20.9	1,845	(15.1)
NCC (Standalone)					
Sales (Rs m)	38,383	29,586	29.7	40,163	(4.4)
EBITDA (Rs m)	3,806	2,812	35.3	4,238	(10.2)
EBITDA margin %	9.9	9.5		10.6	
Adj. PAT (Rs m)	1,623	1,200	35.3	1,777	(8.7)
KNR (Standalone)					
Sales (Rs m)	9,296	8,906	4.4	11,756	(20.9)
EBITDA (Rs m)	1,733	1,650	5.0	2,119	(18.2)
EBITDA margin %	18.6	18.5		18.0	
Adj. PAT (Rs m)	1,103	1,008	9.4	1,286	(14.2)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strong order inflow of FY21-23 may witness slowdown in FY24F ►

The average OB-to-sales ratio for companies under our coverage was 2.6x (latest), a tad lower than that in Mar 2023 (2.8x). Order inflow (Rs102bn) in 1QFY24 was lower than the run-rate in FY23 (Rs590bn).

When compared to the Mar 2023 OB-to-sales ratio, the latest OB-to-sales ratio is lower for PNC Infratech and KNR Constructions and similar for NCC, DBL and IRB Infrastructure. Among peers, NCC has the highest OB-to-sales ratio, while IRB Infrastructure and KNR Constructions' OB-to-sales ratios are low.

Figure 3: Order inflow over FY19-1QFY24 for EPC companies in our coverage

(Rs bn)	Order inflow						
	FY18	FY19	FY20	FY21	FY22	FY23	1QFY24
Dilip Buildcon	141	64	69	175	72	99	13
NCC	220	207	(64)	186	99	242	77
PNC Infra	37	80	12	79	92	129	11
IRB Infra	90	6	(12)	68	73	84	-
KNR Constructions	5	38	35	48	52	36	1
Total	493	396	39	557	388	590	102

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: OB-to-sales and sales growth of EPC companies in our coverage

	Order book/ Sales (x)							yoy Sales growth (%)					
	FY18	FY19	FY20	FY21	FY22	FY23	Latest	FY19	FY20	FY21	FY22	FY23	1QFY24
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.5	2.4	18	(2)	3	(2)	12	0
NCC	4.3	3.4	3.2	5.2	4.0	3.8	3.8	60	(32)	(12)	39	34	30
PNC Infra	4.1	4.0	1.8	2.4	2.4	2.9	2.6	71	55	3	26	12	8
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.3	2.2	19	11	(25)	13	(2)	8
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.4	2.1	11	5	20	22	14	4
Total	3.5	2.9	2.2	3.3	2.9	2.8	2.6	36	(5)	(5)	17	18	14

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Order inflow in FY23-1QFY24 accounted for 61% of the order book

	Order flow FY23-1QFY24 (A)	Order book Latest (B)	A/B (%)
Dilip Buildcon	112	241	46
NCC	319	541	59
PNC Infra	140	189	74
IRB Infra	84	84	100
KNR Constructions	37	80	46
Total	692	1,135	61

SOURCE: INCRED RESEARCH, COMPANY REPORTS

18% of the latest OB must be funded by private road developers, a tad lower than in FY19 (24%) ▶

Around 25% 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 6: Percentage of OBs to be funded by 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	241	22
NCC	412	-	541	-
PNC Infra	122	34	189	37
IRB Infra	111	85	84	65
KNR Constructions	40	40	80	36
Total	897	24	1,135	18

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Divergent FY24F EV/EBITDA valuations ▶

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

Figure 7: Valuations of main third-party construction companies

	EV/ EBITDA (x) for EPC segment		Premium (%) of current FY24F multiple vs.	
	5-year average	Current FY24F	5-year average	
Dilip Buildcon	5.9	4.2	(29)	
NCC	6.1	7.0	15	
PNC Infra	5.5	6.6	20	
KNR Constructions	7.3	8.0	10	
Average	6.2	6.5	4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Salient features of 1QFY24 results ▶

Dilip Buildcon – Rebound in EBITDA margin is the key positive: The EBITDA margin (12.8%) rose sharply from 9.8% in FY23, in line with DBL's FY24F guidance. For FY24F, DBL maintained its guidance of 10% yoy sales growth. The OB-to-sales ratio was at 2.4x, lower than the industry average (2.6x). HAM projects accounted for 37% of the OB. Orders in FY23-1QFY24 comprised 47% of its OB – the start of construction in the case of recently won projects is key. We forecast a 4% EPC sales CAGR over FY23-25F (vs. a 4% CAGR over FY20-23) and a 13% EBITDA margin in FY25F.

IRB Infrastructure – Steady 1Q; upgrade to ADD: While the EPC OB-to-sales ratio was 2.2x, IRB Infrastructure has operations & maintenance (O&M) contracts worth ~Rs253bn after winning the Hyderabad outer ring road (ORR) toll operate and transfer (TOT) project (Rs145bn). We believe that O&M contracts can provide Rs10-15bn revenue p.a. The EPC OB is likely to be under the construction phase in FY24F. We forecast a 13% EPC sales CAGR over FY23-25F (vs. a -7% CAGR over FY20-23). Toll revenue (ex-InvIT) increased by 15% yoy. Private InvIT's (IRB Infrastructure has a 51% stake) toll revenue rose 26% yoy as IRB Infrastructure commenced operations fully at all projects in FY23.

PNC Infratech – In-line results; stock trades at an expensive valuation: Sales/EBITDA rose by 8%/11% yoy, respectively. While the OB (ex-roads) stood at Rs63bn in 1QFY24, EPC revenue (ex-road) was just Rs9.2bn in FY23. There has been a pick-up in execution in 4QFY23/1QFY24 (Rs4.2bn each). The OB-to-sales ratio was at 2.1x, lower than in FY21-22 (2.4x). PNC Infratech recently won four HAM projects which are not yet a part of the OB. Including these, OB-to-sales rises to 2.6x (like the industry average). We estimate that 60% of the OB comprises HAM projects.

NCC – Strong quarter but expensive valuation: NCC's sales /EBITDA grew 30%/ 35% yoy, respectively. In FY24F, NCC is confident of a 10% EBITDA margin and a 20% yoy sales growth (in line with our estimates). Despite strong order wins, the OB-to-sales ratio declined from 5.2x (FY21) to 3.8x due to strong EPC execution (FY22-1QFY24). NCC's OB-to-sales ratio is higher than the industry average (2.6x). Orders won in FY23-1QFY24 comprised 60% of its OB. We forecast a 12% EPC sales CAGR over FY23-25F (vs. a 20% CAGR over FY20-23F).

KNR Constructions – Muted order book; weak execution: EPC sales /EBITDA rose by just 4%/ 5% yoy, respectively. The EBITDA margin was at 18.6% vs. an average 20% in FY21-23. We forecast a 4% EPC sales CAGR over FY23-25F (vs. a 19% CAGR over FY20-23) and a 19% EBITDA margin in FY25F. The OB-to-sales ratio declined from 2.8x in Mar 2022 to 1.7x. KNR Constructions has won three HAM projects, which are not included in the OB. Including these, the OB-to-sales ratio rises to 2.1x. HAM projects comprised 59% of the OB. KNR Constructions' OB-to-sales ratio is lower than the industry avg. (2.6x). Orders won in FY23-1QFY24 comprise 46% of its OB.

IRB InvIT – Results driven by tariff hikes; near-term upside limited: Toll revenue for its five assets grew 13% yoy driven by (a) 3.7% yoy traffic growth, and (b) tariff hike of 5% in four projects since Apr 2023 and 15% in the Omalur-Salem-Namakkaal (OSN) project from Sep 2022. EBITDA declined by 9% yoy as two projects, which contributed 53% to FY22 EBITDA, ended in Mar/May 2022, respectively. The payout was Rs2/unit, similar to Rs8.05 in FY23. Based on the CMP and InvIT regulations, IRB InvIT can have debt of up to Rs75bn vs. net debt of Rs25bn post-acquisition of VK1.

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