

India

**Neutral** (no change)**Highlighted Companies****Dilip Buildcon****ADD, TP Rs350, Rs307 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****REDUCE, TP Rs235, Rs283 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****REDUCE, TP Rs104, Rs161 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	-7.9	-3255.77	23.41
KNR Constructions	21.73	18.11	14.23
NCC	20.3	16.31	13.2

P/BV (x)	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon	1.26	1.12	1.07
KNR Constructions	3.42	2.9	2.42
NCC	1.75	1.64	1.46

Dividend Yield	Mar22-A	Mar23-A	Mar24-F
Dilip Buildcon	0.04%	0.39%	0.39%
KNR Constructions	0.1%	0.22%	0.22%
NCC	1.49%	0.34%	0.42%

# Construction

## 2QFY24 results preview

- We expect ~10% yoy growth in 2QFY24F EPC sales of companies in our coverage, barring NCC where we expect a higher 19% yoy sales growth.
- A rise in the EBITDA margin for Dilip Buildcon to 13% (vs. management's guidance of 13-14% for FY24F) is the key rerating trigger.
- We have an ADD rating on Dilip Buildcon (DBL) and REDUCE ratings on NCC and KNR Constructions.

### 2QFY24F results expectations

We expect ~10% yoy growth in EPC sales in 2QFY24F for Dilip Buildcon (DBL), PNC Infratech, KNR Constructions & IRB Infrastructure. We expect a higher 19% yoy sales growth for NCC, driven by its strong order book (highest among peers). A yoy rise in the EBITDA margin for DBL to 13% (vs. management's guidance of 13-14% for FY24F) is a key rerating trigger. For toll-based assets, we forecast a ~5% qoq rise in revenue.

### 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) 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 strong execution in FY24F, followed by a dip in growth in FY25F.

### Reasonable OB; slow award of projects in FY24F is area of concern

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.

### Stock ratings: ADD (DBL), REDUCE (KNR Constructions, NCC)

We have REDUCE ratings on NCC and KNR Constructions, valuing their EPC business at 6x/7x FY25F EV/EBITDA, respectively. We have an ADD rating on Dilip Buildcon, valuing its EPC business at 5x FY25F EV/EBITDA. Strong order inflow 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

**Parth THAKKAR**

T (022) 22 4161 0000

E parth.thakkar@incredcapital.com

**Figure 1: 2QFY24F earnings estimates for companies under our coverage**

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	16,068	25	(2)	7,143	18	(8)	861	72	(36)
IRB InvT	2,736	37	3	2,271	43	3	1,043	42	4
Dilip Buildcon	24,881	10	(5)	3,235	24	(3)	821	280	(2)
PNC Infra	17,344	11	(7)	2,289	11	(7)	1,450	11	(7)
NCC	35,599	19	(7)	3,560	23	(6)	1,477	21	(9)
KNR Construction	8,971	10	(3)	1,704	9	(2)	1,477	40	(4)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 2QFY24 results preview

Figure 2: 2QFY24F estimates for companies under our coverage

Company	2QFY24F	2QFY23	yoy %	1QFY23	qoq %	Comments
<b>IRB Infra (Consolidated)</b>						
Sales (Rs m)	16,068	12,840	25.1	16,342	(1.7)	We estimate 12% yoy rise in EPC sales. We estimate 27% yoy rise in BOT Sales driven by traffic and tariff hikes.
EPC segment Sales (Rs m)	10,531	9,444	11.5	11,329	(7.0)	
BOT segment Sales (Rs m)	5,537	4,354	27.2	6,126	(9.6)	
EBITDA (Rs m)	7,143	6,061	17.9	7,778	(8.2)	
EBITDA margin %	44.5	47.2		47.6		
Adj. PAT (Rs m)	861	500	72.2	1,338	(35.7)	
<b>IRB InvIT (Consolidated)</b>						
Sales (Rs m)	2,736	1,994	37.2	2,644	3.5	We expect 4% qoq rise in sales driven by traffic growth.
EBITDA (Rs m)	2,271	1,591	42.7	2,198	3.3	
EBITDA margin %	83.0	79.8		83.1		
Adj. PAT (Rs m)	1,043	735	41.9	1,006	3.7	
<b>Dilip Buildcon (Standalone)</b>						
Sales (Rs m)	24,881	22,619	10.0	26,084	(4.6)	We expect 10% yoy rise in sales and 13% EBITDA margin. This is similar to the 12.8% EBITDA margin in 1QFY24 and close to management guidance of 13-14% EBITDA margin in FY24F.
EBITDA (Rs m)	3,235	2,613	23.8	3,348	(3.4)	
EBITDA margin %	13.0	11.6		12.8		
Adj. PAT (Rs m)	821	216	280.1	834	(1.6)	
<b>PNC Infra (Standalone)</b>						
Sales (Rs m)	17,344	15,611	11.1	18,614	(6.8)	We expect 11% yoy sales growth and 13.2% EBITDA margin, similar to historic level.
EBITDA (Rs m)	2,289	2,070	10.6	2,451	(6.6)	
EBITDA margin %	13.2	13.3		13.2		
Adj. PAT (Rs m)	1,450	1,311	10.6	1,566	(7.4)	
<b>NCC (Standalone)</b>						
Sales (Rs m)	35,599	30,037	18.5	38,383	(7.3)	We expect 19% yoy rise in sales as NCC has a high order book-to-sales ratio of 3.8x in Jun 2023 and steady EBITDA margin of 10%, similar to historic level.
EBITDA (Rs m)	3,560	2,886	23.4	3,806	(6.5)	
EBITDA margin %	10.0	9.6		9.9		
Adj. PAT (Rs m)	1,477	1,216	21.5	1,623	(9.0)	
<b>KNR Constructions (Standalone)</b>						
Sales (Rs m)	8,971	8,155	10.0	9,296	(3.5)	We expect 10% yoy sales growth and strong 19% EBITDA margin, similar to historic level.
EBITDA (Rs m)	1,704	1,569	8.6	1,733	(1.7)	
EBITDA margin %	19.0	19.2		18.6		
Adj. PAT (Rs m)	1,062	757	40.3	1,103	(3.7)	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

### After a strong order inflow in FY21-23, there may be a 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
<b>Total</b>	<b>493</b>	<b>396</b>	<b>39</b>	<b>557</b>	<b>388</b>	<b>590</b>	<b>102</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

	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
<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>2.6</b>	<b>36</b>	<b>(5)</b>	<b>(5)</b>	<b>17</b>	<b>18</b>	<b>14</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

(Rs bn)	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
<b>Total</b>	<b>692</b>	<b>1,135</b>	<b>61</b>

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
<b>Total</b>	<b>897</b>	<b>24</b>	<b>1,135</b>	<b>18</b>

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	4.4	(25)	
NCC	6.1	7.2	18	
PNC Infra	5.5	7.5	36	
KNR Constructions	7.3	9.6	32	
<b>Average</b>	<b>6.2</b>	<b>7.2</b>	<b>16</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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