

India

Neutral (no change)**Highlighted Companies****KNR Constructions Ltd****REDUCE, TP Rs235, Rs260 close**

We believe KNC Constructions trades at an expensive valuation (standalone 8.9x FY25F 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 Rs107, Rs171 close**

We believe NCC trades at an expensive valuation (standalone 7.9x FY25F EV/EBITDA vs. five-year median of 6.1x).

PNC Infratech Ltd**HOLD, TP Rs337, Rs349 close**

PNC Infratech trades at 6.6x EV/EBITDA FY25F (standalone), a tad above the five-year median (5.5x). We value its EPC business at 6x FY25F EV/EBITDA.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F
KNR Constructions Ltd	13.05	13.28
NCC Ltd	13.9	12.39
PNC Infratech Ltd	18.8	15.72
P/BV (x)	Mar24-F	Mar25-F
KNR Constructions Ltd	2.22	1.91
NCC Ltd	1.55	1.39
PNC Infratech Ltd	1.89	1.69
Dividend Yield	Mar24-F	Mar25-F
KNR Constructions Ltd	0.24%	0.24%
NCC Ltd	0.4%	0.46%
PNC Infratech Ltd	0.22%	0.24%

Construction

3QFY24 results preview

- We expect ~10% yoy growth in 3QFY24F EPC sales of companies in our coverage, barring NCC where we expect a higher 37% yoy sales growth.
- We have a REDUCE rating on NCC and KNR Constructions and a HOLD rating on PNC Infratech.

3QFY24F results expectations

We expect ~10% yoy growth in EPC sales in 3QFY24F for Dilip Buildcon (DBL), PNC Infratech & KNR Constructions. We expect a higher 37% yoy sales growth for NCC, driven by its strong order book (highest among peers). For toll-based assets, we forecast ~5% qoq rise in revenue. We factor in steady EPC EBITDA margin for the companies in our coverage universe, similar to that in 2QFY24.

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

The government's 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.

Slow award of orders in 2HFY24F is an area of concern

The average OB-to-sales ratio was at 2.5x, a tad lower than that in Mar 2023 (2.8x). Order inflow (Rs252bn) in 1HFY24 was lower than the run-rate in FY23 (Rs531bn). 24% of the latest OB must be funded by private road developers, just like in FY19. Order inflow in 1HFY24 accounted for 21% of the order book. We factor in a 10% average EPC sales CAGR (FY23-25F), like the FY20-23 CAGR. When compared to the Mar 2023 OB-to-sales ratio, the latest OB-to-sales ratio is lower for PNC Infratech (PNC), KNR Constructions (KNR), DBL & IRB Infrastructure and higher for NCC.

Stock ratings: REDUCE NCC, KNR and HOLD PNC Infratech

NCC, PNC Infratech and KNR Constructions are trading at a premium to their five-year average EV/EBITDA, while DBL is trading at close to its average. 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. Strong order inflow in FY24F vs. our estimate is the upside risk to REDUCE/HOLD ratings.

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Figure 1: 3QFY24F earnings estimates for companies under our coverage

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	19,267	27	10	8,189	10	3	1,186	(16)	24
IRB InvT	2,676	8	5	2,221	31	4	943	30	7
Dilip Buildcon	26,075	10	7	3,311	33	13	1,038	216	25
PNC Infratech	17,637	8	4	2,328	12	2	1,434	11	3
NCC	45,438	37	1	4,544	30	(5)	1,928	29	(28)
KNR Construction	9,455	14	0	1,749	12	5	1,928	24	6

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 results preview

Figure 2: 3QFY24F estimates for companies under our coverage

Company	3QFY24F	3QFY23	yoy %	2QFY24	qoq %	Comments
IRB Infra (Consolidated)						
Sales (Rs m)	19,267	15,141	27.3	17,450	10.4	We estimate 29% yoy rise in EPC sales. We estimate 12% yoy rise in BOT Sales driven by traffic and tariff hikes.
EPC segment Sales (Rs m)	13,066	10,165	28.5	12,862	1.6	
BOT segment Sales (Rs m)	6,201	5,537	12.0	5,883	5.4	
EBITDA (Rs m)	8,189	7,444	10.0	7,946	3.1	
EBITDA margin %	42.5	49.2		45.5		
Adj. PAT (Rs m)	1,186	1,419	(16.4)	957	23.9	
IRB InvIT (Consolidated)						
Sales (Rs m)	2,676	2,470	8.3	2,540	5.4	We expect 8% yoy rise in sales driven by traffic growth and tariff hikes.
EBITDA (Rs m)	2,221	1,697	30.9	2,136	4.0	
EBITDA margin %	83.0	68.7		84.1		
Adj. PAT (Rs m)	943	723	30.4	885	6.6	
Dilip Buildcon (Standalone)						
Sales (Rs m)	26,075	23,788	9.6	24,270	7.4	We expect 10% yoy rise in sales and 12.7% EBITDA margin. This is a tad higher than the 12.1% EBITDA margin in 2QFY24 and close to management's guidance of 13-14% EBITDA margin for FY24F.
EBITDA (Rs m)	3,311	2,497	32.6	2,935	12.8	
EBITDA margin %	12.7	10.5		12.1		
Adj. PAT (Rs m)	1,038	329	215.5	833	24.6	
PNC Infratech (Standalone)						
Sales (Rs m)	17,637	16,270	8.4	16,930	4.2	We expect 8.4% yoy sales growth and 13.2% EBITDA margin, similar to historic level.
EBITDA (Rs m)	2,328	2,081	11.9	2,276	2.3	
EBITDA margin %	13.2	12.8		13.4		
Adj. PAT (Rs m)	1,434	1,294	10.8	1,398	2.6	
NCC (Standalone)						
Sales (Rs m)	45,438	33,127	37.2	44,826	1.4	We expect 37% yoy rise in sales as NCC has a high order book-to-sales ratio of 4x in Sep 2023 and steady EBITDA margin of 10%, similar to historic level.
EBITDA (Rs m)	4,544	3,488	30.3	4,779	(4.9)	
EBITDA margin %	10.0	10.5		10.7		
Adj. PAT (Rs m)	1,928	1,499	28.6	2,684	(28.2)	
KNR Constructions (Standalone)						
Sales (Rs m)	9,455	8,302	13.9	9,415	0.4	We expect 14% yoy sales growth and strong 19% EBITDA margin, similar to historic level.
EBITDA (Rs m)	1,749	1,561	12.0	1,663	5.2	
EBITDA margin %	18.5	18.8		17.7		
Adj. PAT (Rs m)	1,058	856	23.6	999	5.9	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Strong order inflow witnessed in FY21-23 may see a slowdown in FY24F ▶

The average OB-to-sales ratio for companies under our coverage is 2.5x (latest), lower than that in Mar 2023 (2.8x). Order inflow (Rs252bn) in 1HFY24 was lower than the run-rate in FY23 (Rs531bn).

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

Figure 3: Order inflow (construction projects) over FY19-1HFY24 for EPC companies in our coverage

(Rs bn)	Order inflow						
	FY18	FY19	FY20	FY21	FY22	FY23	1HFY24
Dilip Buildcon	141	64	69	175	72	99	36
NCC	220	207	(64)	186	99	242	199
PNC Infratech	37	80	12	79	92	129	13
IRB Infra	90	6	(12)	68	70	25	-
KNR Constructions	5	38	35	48	52	36	5
Total	493	396	39	557	385	531	252

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	1HFY24
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.5	2.3	18	(2)	3	(2)	12	3
NCC	4.3	3.4	3.2	5.2	4.0	3.8	4.0	60	(32)	(12)	39	34	40
PNC Infratech	4.1	4.0	1.8	2.4	2.4	2.9	2.4	71	55	3	26	13	8
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.3	1.8	19	11	(25)	13	(3)	21
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.4	1.9	11	5	20	22	14	10
Average	3.3	2.8	2.1	3.0	2.9	2.8	2.5	36	8	(2)	20	14	16

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Order inflow in 1HFY24 accounted for 21% of the order book

(Rs bn)	Order flow 1HFY24 (A)	Order book Latest (B)	A/B (%)
Dilip Buildcon	36	240	15
NCC	199	618	32
PNC Infratech	13	178	7
IRB Infra	-	76	-
KNR Constructions	5	75	6
Total	252	1,186	21

SOURCE: INCRED RESEARCH, COMPANY REPORTS

24% of the latest OB must be funded by private road developers, similar to that in FY19 (24%) ▶

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	240	28
NCC	412	-	618	13
PNC Infratech	122	34	178	33
IRB Infra	111	85	76	65
KNR Constructions	40	40	75	35
Total	897	24	1,186	24

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Stocks trading at a premium to five-year average EV/EBITDA ▶

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

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 FY25F	5-year average
Dilip Buildcon	5.7	5.3	(7)
NCC	6.3	7.9	25
PNC Infratech	5.7	6.6	16
KNR Constructions	7.3	8.9	22
Average	6.3	7.2	15

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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