India

Underweight *(previously Neutral)*

Highlighted Companies

KNR Constructions Ltd

REDUCE, TP Rs222, Rs271 close

Over FY19-24F the average OB/sales ratio was at 2.2x and sales grew at a CAGR of 14%. We forecast flat EPC sales over FY24F-26F considering the weak OB-to-sales ratio (1.7x).

NCC Ltd

REDUCE, TP Rs150, Rs222 close

While the OB/sales ratio (3.4x) is healthy, over FY19-24F, the average OB/ sales ratio was at 3.8x and sales grew at a CAGR of 8%. We forecast an 8% EPC sales CAGR over FY24F-26F, similar to the FY19-24F CAGR.

PNC Infratech Ltd

REDUCE, TP Rs400, Rs414 close

We expect its OB-to-sales ratio to decline to 2x in Mar 2024F and lead to just a 5% yoy sales growth in FY25F.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
KNR Constructions Ltd	13.83	14.46	13.11
NCC Ltd	15.61	14.7	13.84
PNC Infratech Ltd	13.8	18.93	17.21

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
KNR Constructions Ltd	2.3	1.99	1.74
NCC Ltd	1.99	1.77	1.58
PNC Infratech Ltd	2.11	1.9	1.72

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
KNR Constructions Ltd	0.23%	0.23%	0.23%
NCC Ltd	0.38%	0.38%	0.4%
PNC Infratech Ltd	0.17%	0.18%	0.2%

Construction

OB-to-sales ratio decline likely in next six months

- We expect a 50% yoy fall in the industry's order inflow in 2HFY24F. We expect the industry's OB-to-sales ratio to dip to 2.4x in Mar 2024F vs. 3x in Mar 2023.
- As a result, we feel project execution is likely to hit a speed bump in FY25F.
- We downgrade our sector rating to Underweight from Neutral because of a likely slowdown in awarding new projects and stretched stock valuations.

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.

Interim budget 2024-25 impact: weak allocation - history repeats itself

Capital allocation to infrastructure + internal & extra budgetary resources (IEBR) for PSUs was Rs7.4tr (1% up than in the FY24 Budget & 5% higher than the FY24 revised estimate) - a far cry from the growth in last two years (~30% yoy). During the last general elections (FY20), spending fell 17% yoy despite the FY20 budget estimate being 8% up yoy.

OB-to-sales (2.24x) is 23% below Mar 2023; orders in 3QFY24 dry up

In 3QFY24, the EPC revenue of listed companies rose by 14% yoy, in line with our estimate and with the historical trend in the year prior to elections (FY09,14,19). The industry's Dec 2023 OB-to-sales ratio (2.66x) is 13% below the Mar 2023 level. The average OB-to-sales ratio is lower at 2.24x and has fallen by 23% from the Mar 2023 level. While the 1HFY24 order inflow rose by 17% yoy, in 3QFY24 it fell 58% yoy. We feel the 2HFY24F order inflow will have a strong impact on FY25F sales of EPC companies. Considering the (a) strong 34% yoy growth in order inflow in FY23, & (b) that 61% of FY23 order inflow was in 2H, we expect a 50% yoy decline in 2HFY24F order inflow. We expect a 15% yoy rise in industry's sales (2HFY24F) and the OB-to-sales ratio to fall to 2.4x in Mar 2024F from 3x (Mar 2023).

Coverage companies: concern over order inflow dip in next 6 months

EPC sales/ EBITDA in 3QFY24 for the companies under our coverage grew by 23% each. The average OB-to-sales ratio was at 2.2x (vs. 2.8x in Mar 2023). Order inflow (Rs276bn) in 9MFY24 was lower than the run-rate in FY23 (Rs531bn). Order inflow in 9MFY24 accounted for 25% of the order book. We factor in a 6% average EPC sales CAGR (FY24F-26F) vs. 8% (FY19-24F). When compared to the Mar 2023 OB-to-sales ratio, the latest number is lower for all companies in our coverage universe.

Key stock calls: REDUCE NCC, KNR, PNC Infra & IRB Infrastructure

NCC & PNC Infratech trade at a premium to their six-year median EV/EBITDA while Dilip Buildcon or DBL & KNR Constructions trade close to their median levels. However, we feel KNR's valuation is rich (8.7x FY25F). We have a REDUCE rating on NCC, KNR, and PNC, valuing their EPC business at 6x/ 6x/ 6.5x FY26F EV/EBITDA, respectively. We also have a REDUCE rating on IRB Infrastructure due to rich valuation (2.8x P/BV FY24F). Strong order inflow in 4QFY24F-1HFY25F vs. our estimate is the upside risk to REDUCE ratings.

Research Analyst(s)

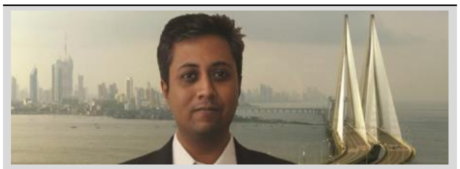

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Figure 1: 3QFY24 results summary

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	19,685	30	13	8,695	17	9	1,874	32	96
IRB InvIT	2,678	8	5	1,947	15	-9	809	12	-9
Dilip Buildcon	25,711	8	6	3,185	28	9	750	128	-10
PNC Infra	18,027	11	6	2,395	15	5	1,511	17	8
NCC	47,469	43	6	4,793	37	0	2,128	42	-21
KNR Constructions	9,054	9	-4	1,473	-6	-11	855	-0	-14

SOURCE: INCRED RESEARCH, COMPANY REPORTS

OB-to-sales ratio dip likely in next six months

Infrastructure spending trend (FY05-23): We expect project execution to face a speed bump in FY25F

Budgetary support accounts for 74% of the total spending on government infrastructure projects (FY23RE): Over FY16-23, government capex on infrastructure via (a) budgetary support, and (b) investment in public sector undertakings or PSUs via internal and extra budgetary resources (IEBR) grew at a 15% CAGR. Government capex on infrastructure via budgetary support grew at a 28% CAGR, but investment in PSUs via IEBR grew at a 1% CAGR. The proportion of funding for infrastructure spending via budgetary support rose from 35% (FY16) to 74% (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 PSUs - IEBR	16	10	48	(31)	(13)	1	(7)	17	1
Capital + Investment in PSUs - 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

Note: Indian Railways was included in the Union Budget from FY16. Thus, for comparison over FY04-23, we have used the numbers excluding railways.

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

Figure 3: Government spending 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 PSUs - IEBR	(14)	74	14	26	8	(5)	(6)	14	(3)	30
Capital + Investment in PSUs - IEBR	(7)	65	7	24	9	(2)	1	9	5	29

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

Figure 4: Government spending 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 PSUs - IEBR	(21)	54	14	26	20	(8)	(16)	5	(33)	20
Capital + Investment in PSUs - IEBR	(7)	38	23	22	22	(6)	(3)	15	29	28

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

Project execution during the years of general elections declined by an average of 5% yoy in four prior instances (FY05,10,15,20). However, infrastructure spending has been robust in the years before the elections (FY09,14,19) as the government ramps up execution prior to general elections.

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 scheduled in May 2024. We expect strong execution in FY24F, followed by a dip in growth in FY25F.

This trend is reflected in the 3% yoy dip in EPC revenue of construction companies in FY20 (election year). However, EPC revenue of construction companies rose by 3% yoy in FY15 (election year) – likely due to higher contribution from private capex.

Figure 5: Revenue of listed construction companies – we have considered L&T (domestic construction), PNC, NCC, KNR Constructions, Dilip Buildcon, IRB Infrastructure, HCC, ITD Cementation and HG Infra Engineering for our analysis

(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR %
L&T domestic Construction	541	560	585	648	770	765	667	821	941	6
yoy growth %	-0	3	4	11	19	-1	-13	23	15	
Other companies	212	260	279	307	399	373	352	440	526	12
yoy growth %	13	23	7	10	30	-7	-6	25	20	
Total	**753**	**820**	**864**	**955**	**1,169**	**1,138**	**1,018**	**1,261**	**1,467**	**7**
yoy growth %	**3**	**9**	**5**	**11**	**22**	**-3**	**-11**	**24**	**16**	
Spending on Infra - capital + investment in PSUs (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

Interim budget 2024-25 impact: weak allocation - history repeats itself ›

Capital allocation to infrastructure + internal & extra budgetary resources (IEBR) for PSUs stood at Rs7.4tr. This was 1% higher than in the FY24 Budget and 5% higher than the FY24 revised estimate. This is a far cry from the growth witnessed in the last two years, when spending rose by ~30-35% yoy.

Note: We have considered spending on the sectors such as roads, railways, power (including renewable), civil aviation, telecom, drinking water and shipping.

- We note that in the last general election (FY20), spending declined by 17% yoy, despite the FY20 budget estimate being 8% higher than in the FY19 budget. The weak growth is in line with our expectation.
- Allocation ex-IEBR rose by 6% yoy (vs. FY24RE) to Rs6.1tr. 83% of the funding in FY25F is likely from budgetary support, similar to that in FY24.

Figure 6: Capital + investment in PSUs via IEBR in FY19,20, 24 and 25

(Rs bn)	FY19	FY20	Growth %	FY24	FY25	Growth %
Budget	3,201	3,461	8	7,266	7,354	1
Revised	3,520	4,491	28	7,003	na	
Actual	3,787	3,132	(17)	na	na	
Actual as % of Budget	118	90				

SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

- Allocation to road and railway sectors (73% of the overall spending on infrastructure) grew by just 2% vs. FY24 revised estimate. Note: We have excluded the allocation of Rs302bn in FY23 to Indian Railway Finance Corporation because it is the finance arm of Indian Railways.
- Roads: Overall allocation increased by 1% yoy to Rs2.8tr. Budgetary support increased by 1% yoy for the National Highways Authority of India (NHAI) and the Ministry of Road Transport and Highways or MoRTH. 100% of the allocation to NHAI is via budgetary support. This implies that NHAI's leverage is unlikely to increase.

Latest industry average OB-to-sales ratio is 2.24x (23% below Mar 2023 level) and is likely to deteriorate over 2HFY24F ›

In 3QFY24, the construction revenue of listed companies rose by 14% yoy. This was in line with our expectation, and also in line with the historical trend of strong growth in construction activity in the year prior to elections (FY09,14,19). Order inflow declined by 58% yoy. As a result, the OB declined by 4% qoq (up 2% yoy).

Note: In 3QFY24, L&T's domestic EPC business comprised 61% of the industry's sales (based on our selected companies), 80% of the industry's order inflow, 66% of the industry's order book or OB and 47% of the industry's EBITDA. Thus, the performance of L&T has a profound impact on the industry.

Figure 7: Revenue, order inflow and order book of listed construction companies – we have considered L&T (domestic construction), PNC, NCC, KNR, DBL, IRB Infrastructure, HCC, ITD Cementation and HG Infra Engineering for our analysis

	1HFY20	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	3QFY24
Sales (Rs bn)										
Industry	514	626	349	668	513	751	630	831	761	415
yoy growth %			(32)	7	47	12	23	11	21	14
L&T Domestic construction	335	431	214	452	313	509	392	543	470	254
yoy growth %			(36)	5	46	13	26	7	20	7
Others	179	195	136	215	201	242	238	289	291	161
yoy growth %			(24)	11	48	12	18	19	22	27
Order flow (Rs bn)										
Industry	691	544	485	1,222	419	1,006	740	1,212	863	240
yoy growth %			(30)	125	(14)	(18)	77	20	17	(58)
L&T Domestic construction	520	369	227	843	268	614	475	741	553	193
yoy growth %			(56)	129	18	(27)	77	21	16	(51)
Others	172	175	258	379	151	392	266	471	310	47
yoy growth %			50	116	(42)	4	76	20	17	(74)
Order book (Rs bn)										
Industry	3,486	3,288	3,395	3,871	3,782	4,010	4,098	4,473	4,529	4,365
yoy growth %			(3)	18	11	4	8	12	11	2
L&T Domestic construction	2,361	2,289	2,273	2,586	2,547	2,624	2,684	2,877	2,914	2,863
yoy growth %			(4)	13	12	1	5	10	9	1
Others	1,125	999	1,122	1,285	1,235	1,386	1,414	1,596	1,615	1,502
yoy growth %			(0)	29	10	8	14	15	14	2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The Dec 2023 OB-to-sales ratio (2.66x) was 13% below the Mar 2023 ratio. Excluding L&T, the decline (vs. Mar 2023) was 19% to 2.45x. **We note that the average OB-to-sales was lower at 2.24x and has declined by 23% from Mar 2023.**

Figure 8: OB-to-sales ratios of listed construction companies

OB/ Sales (x)	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	3QFY24	% chg vs. Mar 23
Industry	2.89	3.48	3.81	3.20	3.17	2.97	3.06	2.85	2.66	(13.2)
L&T Dom. construction	2.99	3.53	3.89	3.33	3.19	2.98	3.08	2.88	2.78	(9.5)
Others	2.67	3.40	3.66	2.97	3.13	2.95	3.03	2.79	2.45	(19.3)
Dilip Buildcon	2.12	2.87	2.98	2.38	2.84	2.75	2.51	2.34	2.09	(16.8)
NCC	3.26	4.18	5.31	4.60	3.96	3.39	3.78	3.92	3.36	(11.1)
PNC	1.81	1.57	2.36	2.26	2.36	1.78	2.92	2.44	2.33	(20.2)
KNR	2.33	3.70	2.65	2.10	2.75	2.31	1.91	1.46	1.26	(34.3)
IRB Infra	0.91	1.21	2.03	1.45	2.43	2.21	2.12	1.65	1.38	(34.7)
HG Infra	3.23	3.29	2.79	2.00	2.21	2.88	2.89	2.25	1.94	(32.8)
HCC	4.59	7.14	6.90	4.60	3.42	2.79	2.83	2.30	2.05	(27.7)
ITD Cementation	5.48	6.54	5.31	4.05	4.78	5.77	4.29	3.59	2.98	(30.4)
Average OB/ Sales	**2.97**	**3.78**	**3.80**	**2.97**	**3.11**	**2.98**	**2.92**	**2.54**	**2.24**	(23.4)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

While the 1HFY24 industry order inflow rose by 17% yoy, we believe the 2HFY24F order inflow will have a strong impact on FY25F sales of EPC companies. During 2HFY19 (prior to general elections), the order inflow of L&T, DBL and NCC together declined by 25% yoy. Considering the (a) strong 34% yoy growth in order flow in FY23, and (b) 61% of the FY23 order flow was in 2HFY23, we expect a sharp 50% yoy decline in 2HFY24F order flow.

We expect the industry's sales to rise by 15% yoy in 2HFY24F. Thus, we expect the industry OB-to-sales ratio to decline to 2.4x in Mar 2024F from 3x in Mar 2023.

Figure 9: Contribution of 2H to full-year sales/ order inflow – historically, 2H accounted for ~55% of full-year sales for EPC companies; during FY22-23, 2H accounted for 65% of full-year order inflow

2H as a % of full year	FY20	FY21	FY22	FY23
Sales				
Industry	55	66	59	57
L&T Domestic construction	56	68	62	58
Others	52	61	55	55
Order flow				
Industry	44	72	71	61
L&T Domestic construction	42	79	70	61
Others	51	59	72	61

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: EBITDA and EBITDA margin of listed players – industry EBITDA margin for trailing 12 months (TTM) ended Dec 2023 declined by 170bp (vs. FY20); the decline for L&T was 143bp while for others the EBITDA margin fell by 293bp

	1HFY20	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	3QFY24
EBITDA (Rs bn)										
Industry	61	72	39	82	58	84	64	87	75	41
yoy growth %			(37)	13	51	3	10	3	17	10
L&T Domestic construction	31	41	17	48	28	49	32	48	35	19
yoy growth %			(46)	17	69	1	16	(1)	7	(4)
Others	30	31	22	34	30	36	32	38	40	22
yoy growth %			(27)	8	37	5	5	8	27	26
EBITDA margin %										
Industry	11.9	11.6	11.1	12.2	11.3	11.2	10.2	10.4	9.9	9.9
L&T Domestic construction	9.2	9.5	7.8	10.6	9.0	9.5	8.2	8.9	7.4	7.6
Others	17.0	16.1	16.3	15.7	15.0	14.7	13.4	13.3	13.9	13.6
Dilip Buildcon	15.8	16.3	15.6	15.9	11.9	5.2	9.6	10.0	12.5	12.4
NCC	11.1	12.3	12.0	11.2	10.7	9.6	9.6	10.5	10.3	10.1
PNC	13.7	13.8	13.4	13.9	13.9	13.0	13.0	13.1	13.3	13.3
KNR	21.3	22.0	20.2	19.0	20.8	20.5	18.9	18.3	18.1	16.3
IRB Infra	30.1	29.7	33.0	30.0	31.2	45.6	29.6	28.8	30.9	28.5
HG Infra	15.3	15.9	16.5	16.2	16.5	15.9	15.6	16.4	16.0	15.9
HCC	19.0	5.4	16.4	8.6	11.2	21.0	14.8	12.7	13.3	12.4
ITD Cementation	12.2	12.5	1.8	13.7	10.3	8.9	9.9	9.3	10.1	10.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 results review for stocks under our coverage ›

Figure 11: 3QFY24 results

Company	3QFY24	3QFY23	yoy %	2QFY24	qoq %
IRB Infra (Consolidated)					
Sales (Rs m)	19,685	15,141	30.0	17,450	12.8
EPC segment Sales including other income (Rs m)	14,407	10,165	41.7	12,862	12.0
BOT segment Sales including other income(Rs m)	6,366	5,537	15.0	5,883	8.2
EBITDA (Rs m)	8,695	7,444	16.8	7,946	9.4
EBITDA margin %	44.2	49.2		45.5	
Adj. PAT (Rs m)	1,874	1,419	32.1	957	95.8
IRB InvIT (Consolidated)					
Sales (Rs m)	2,678	2,470	8.4	2,540	5.4
EBITDA (Rs m)	1,947	1,697	14.7	2,136	(8.8)
EBITDA margin %	72.7	68.7		84.1	
Adj. PAT (Rs m)	809	723	11.9	885	(8.6)
Dilip Buildcon (Standalone)					
Sales (Rs m)	25,711	23,788	8.1	24,270	5.9
EBITDA (Rs m)	3,185	2,497	27.6	2,935	8.5
EBITDA margin %	12.4	10.5		12.1	
Adj. PAT (Rs m)	750	329	128.0	833	(10.0)
PNC Infra (Standalone)					
Sales (Rs m)	18,027	16,270	10.8	16,930	6.5
EBITDA (Rs m)	2,395	2,081	15.1	2,276	5.2
EBITDA margin %	13.3	12.8		13.4	
Adj. PAT (Rs m)	1,511	1,294	17	1,398	8
NCC (Standalone)					
Sales (Rs m)	47,469	33,127	43	44,826	6
EBITDA (Rs m)	4,793	3,488	37	4,779	0
EBITDA margin %	10	11		11	
Adj. PAT (Rs m)	2,128	1,499	42	2,684	(21)
KNR (Standalone)					
Sales (Rs m)	9,054	8,302	9	9,415	(4)
EBITDA (Rs m)	1,473	1,561	(6)	1,663	(11)
EBITDA margin %	16	19		18	
Adj. PAT (Rs m)	855	856	(0)	999	(14)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Order inflow likely to slow down in 2HFY24F-1HFY25F ›

The average OB-to-sales ratio for companies under our coverage was 2.2x (latest), lower than that in Mar 2023 (2.8x). Order inflow (Rs276bn) in 9MFY24 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 all companies in our coverage. NCC has the highest OB-to-sales ratio while IRB Infrastructure and KNR Constructions' OB-to-sales ratios are low.

While NCC's OB/sales ratio (3.4x) is healthy, we note that over FY19-24F the average OB/ sales ratio was at 3.8x and sales grew at a CAGR of 8%. We forecast an 8% EPC sales CAGR over FY24F-26F, similar to the FY19-24F CAGR.

Figure 12: Order inflow (construction projects) over FY19-9MFY24 for EPC companies in our coverage

	Order inflow						
(Rs bn)	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**9MFY24**
Dilip Buildcon	141	64	69	175	72	99	41
NCC	220	207	(64)	186	99	242	203
PNC Infratech	37	80	12	79	92	129	26
IRB Infra	90	6	(12)	68	70	25	-
KNR Constructions	5	38	35	48	52	36	7
Total	**493**	**396**	**39**	**557**	**385**	**531**	**276**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: OB-to-sales ratio 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**	**9MFY24**
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.5	2.1	18	(2)	3	(2)	12	5
NCC	4.3	3.4	3.2	5.2	4.0	3.8	3.4	60	(32)	(12)	39	34	41
PNC Infratech	4.1	4.0	1.8	2.4	2.4	2.9	2.3	71	55	3	26	13	9
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.3	1.7	19	11	(25)	13	(3)	28
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.4	1.7	11	5	20	22	14	9
Average	**3.3**	**2.8**	**2.1**	**3.0**	**2.9**	**2.8**	**2.2**	**36**	**8**	**(2)**	**20**	**14**	**18**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Order inflow in 9MFY24 accounted for 25% of the order book

(Rs bn)	Order flow 9MFY24 (A)	Order book Latest (B)	A/B (%)
Dilip Buildcon	41	218	19
NCC	203	574	35
PNC Infratech	26	174	15
IRB Infra	-	69	-
KNR Constructions	7	67	10
Total	**276**	**1,103**	**25**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

25% of the latest OB must be funded by private road developers, similar to that in FY19 (24%) ›

Figure 15: Percentage of OB to be funded by companies in our coverage

	Order book - FY19		Order book - latest	
(Rs bn)	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	218	28
NCC	412	-	574	14
PNC Infratech	122	34	174	33
IRB Infra	111	85	69	82
KNR Constructions	40	40	67	34
Total	**897**	**24**	**1,103**	**25**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Stocks trade at a premium to their five-year average EV/EBITDA ›

NCC and PNC Infratech are trading at a premium to their six-year median EV/EBITDA while DBL and KNR Constructions trade close to their six-year median levels. However, we believe KNR's valuation is expensive (8.7x FY25F).

Figure 16: Valuations of main third-party construction companies

	EV/ EBITDA (x) for EPC segment		Premium (%) of FY25F multiple vs.
	6-year median	FY25F	6-year median
Dilip Buildcon	5.6	5.5	(2)
NCC	5.9	8.4	42
PNC Infratech	5.7	7.8	37
KNR Constructions	8.2	8.7	6
Average	**6.4**	**7.6**	**20**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Highlights of 3QFY24 results of companies in our coverage ›

Dilip Buildcon – Weak order book: Sales rose by 8% yoy. The EBITDA margin (12.4%) was slightly below DBL's guidance (13-14%). The order book or OB-to-sales ratio declined from 2.7x (Dec 2022) to 2.1x (Dec 2023) and we estimate 1.8x OB-to-sales ratio in Mar 2024F. 34% of the OB of Rs218bn comprise HAM projects. Construction is yet to start for ~32% of DBL's OB. Over FY19-24F, the average OB/sales ratio was at 2.4x and sales grew at a CAGR of 3%. We forecast flat EPC sales over FY24F-26F considering (a) the weak OB-to-sales ratio, and (b) a likely weak industry order flow in the next two quarters.

IRB Infrastructure – Steady 3Q results, but valuation is expensive: EPC sales rose by 42% yoy. In 3QFY24, IRB Infrastructure won two Toll, Operate, Transfer (TOT) projects, which added Rs50bn to its OB. The EPC OB-to-sales ratio was 1.7x and O&M OB stands at Rs294bn. We believe that O&M contracts can provide ~Rs18bn revenue per annum. The EPC OB (Rs69bn) is likely to be under the construction phase in FY25F. We forecast a 17% EPC sales CAGR over FY23-26F (vs. -7% CAGR over FY20-23). IRB Infrastructure's (ex-InvIT) toll revenue increased by 16% yoy.

PNC Infratech – slim OB, expensive valuation: EBITDA rose by 15% yoy. The OB-to-sales ratio was at 2.3x. PNC Infratech had won four HAM projects in 2HFY23 (Rs44bn), which were not included in the OB earlier but have been included now. New orders were just worth Rs13bn. We believe 55% of the OB comprise HAM projects, and thus PNC Infratech must fund 33% of its OB. We expect its OB-to-sales ratio to decline to 2x in Mar 2024F and lead to just a 5% yoy sales growth in FY25F. In Jan 2024, PNC Infratech executed pacts with Highways Infra Trust to divest its 12 assets at an equity value of Rs29bn (1.7x P/BV). The timeline is important – clarity awaited.

NCC – Strong execution but orders dry up: EBITDA grew 37% yoy. NCC expects ~35% yoy rise in sales in FY24F. NCC expects 10% EBITDA margin in FY25F, similar to 9MFY24. During 1HFY24, NCC won orders worth Rs195bn. New orders dried up in 3QFY24 (just Rs8bn). The order book or OB/sales ratio declined from 3.9x (Sep 2023) to 3.4x and we expect it to decline to 3.2x in Mar 2024F. While the OB/sales ratio is healthy, we note that over FY19-24F the average OB/ sales ratio was at 3.8x and sales grew at a CAGR of 8%. We forecast an 8% EPC sales CAGR over FY24F-26F, similar to FY19-24F.

KNR Constructions – weak order book is an area of concern: EPC sales rose by 9% yoy but the EBITDA margin was at 16.3%, lower than its three-year average of 20%. KNR Constructions had won three HAM projects of Rs17.8bn construction value in Feb-Mar 2023, which were not yet included in the OB. Including these, the OB-to-sales ratio is 1.7x and we expect it to decline to 1.5x in Mar 2024F. HAM projects stood at 57% of the OB and thus, KNR Constructions must fund 35% of its OB. Over FY19-24F, the average OB/sales ratio was at 2.2x and sales grew at a CAGR of 14%. We forecast flat EPC sales and an 18.5% EBITDA margin over FY25F-26F.

IRB InvIT – Steady results, trading at fair valuation: Sales/EBITDA grew 8%/15% yoy, respectively. Gross toll revenue of five toll-based assets rose by 11% yoy, partly because 3QFY23 was weak for the Pathankot-Amritsar (PA) project due to farmers' protest. Ex-PA, gross toll revenue rose by 8% yoy driven by a 4% tariff hike and ~4% yoy traffic growth. IRB InvIT stated that construction of three HAM projects of IRB Infrastructure worth Rs21bn (project cost ex-grant) would be completed by FY26F-27F and be available for acquisition by IRB InvIT. Payout was Rs2/unit, similar to the run-rate in FY23-1HFY24.

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