

India

Underweight (no change)**Highlighted Companies****KNR Constructions Ltd****REDUCE, TP Rs222, Rs303 close**

Over FY19-24, the average OB/sales ratio was at 2.2x and sales grew at a CAGR of 15%. We forecast flat EPC sales over FY24-26F considering the weak OB-to-sales ratio (1.6x).

NCC Ltd**REDUCE, TP Rs150, Rs286 close**

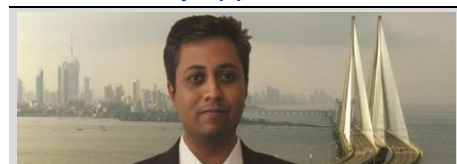
While the OB/sales ratio (3.1x) was healthy over FY19-24, the average OB/sales ratio was at 3.8x and sales grew at a 9% CAGR. We forecast a 7% EPC sales CAGR over FY24-26F.

PNC Infratech Ltd**REDUCE, TP Rs400, Rs514 close**

PNC Infratech gave guidance of a 12-12.5% EBITDA margin, lower than in FY24 (13.3%) due to higher competition. This implies a 2-3% yoy rise in EBITDA, 7% below our estimate.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
KNR Constructions Ltd	15.45	16.16	14.66
NCC Ltd	20.07	18.9	17.79
PNC Infratech Ltd	17.14	23.52	21.38
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
KNR Constructions Ltd	2.57	2.23	1.94
NCC Ltd	2.56	2.27	2.03
PNC Infratech Ltd	2.62	2.36	2.13
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
KNR Constructions Ltd	0.21%	0.21%	0.21%
NCC Ltd	0.3%	0.3%	0.31%
PNC Infratech Ltd	0.13%	0.15%	0.16%

Research Analyst(s)**Rajarshi MAITRA**

T (91) 22 4161 1546

E rajarshi.maitra@incredresearch.com

Shivam AGARWAL

T (91) 22 4161 1500

E shivam.agarwal@incredresearch.com

Constrn & Material - Overall**Weak execution likely in FY25F; rich valuations**

- Industry avg. OB-to-sales ratio was at just 2.13x, 27%/ 29% lower vs. Mar 2023/ five-year average. Thus, we expect weak project execution in FY25F.
- Stocks in our coverage universe are at steep valuations. We maintain our Underweight rating on the sector.

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 general elections in the country are ongoing. We expect a dip in execution in FY25F, after a strong FY24.

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 the last two years (~30% yoy). During the last general elections (FY20), spending fell by 17% yoy, despite the FY20 budget estimate being up 8% yoy.

Average OB-to-sales (2.13x) is 27% below Mar 2023 number

In 4QFY24, construction revenue of listed companies rose by just 7% yoy, much below the growth in 9MFY24 (up 18% yoy). The Mar 2024 industry OB-to-sales ratio (2.62x) was 14%/ 16% below that of Mar 2023/ five-year average, respectively. The industry average OB-to-sales was lower at 2.13x and was 27%/ 29% lower vs. Mar 2023/ five-year average. While the 1HFY24 industry order inflow rose by 13% yoy, we believe the weak 2HFY24F order inflow (down 35% yoy) will have a strong impact on FY25F sales. In FY22-23, 2H accounted for 66% of full-year order inflow but in FY24, 2H accounted for just 49%. The FY24 industry EBITDA margin was at 10.2%, 156bp lower than in FY20. We believe the margin dip has a strong negative impact on EBITDA in a slim-margin sector like the construction sector. Over FY20-24, while industry sales grew at a 10.1% CAGR, EBITDA grew at just a 6.4% CAGR.

Coverage companies: concern over slim OB-to-sales ratio

EPC sales/ EBITDA in 4QFY24 for the companies under our coverage universe grew by 14%/ 12%, respectively. The average OB-to-sales ratio was at 1.9x (vs. 2.8x in Mar 2023). Order inflow (Rs344bn) in FY24 was lower than the run-rate in FY23 (Rs531bn). Order inflow in FY24 accounted for 34% of the order book. We factor in a 6% average EPC sales CAGR (FY24-26F) vs. 9% (FY19-24). 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 and KNR Construction trade at a premium to their six-year median EV/EBITDA while Dilip Buildcon or DBL trades close to its median. We have a REDUCE rating on NCC, KNR, and PNC Infra, valuing their EPC business at 6x/ 6x/ 6.5x FY26F EV/EBITDA, respectively. We also have a REDUCE rating on IRB Infrastructure due to its rich valuation (2.8x FY24 P/BV). Strong order inflow in 1HFY25F vs. our estimate is the upside risk to the REDUCE ratings.

Figure 1: 4QFY24 results summary

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infra	20,612	27	5	8,899	17	2	1,261	-4	-33
IRB InvT	2,733	6	2	2,316	13	19	1,031	-15	27
Dilip Buildcon	29,308	3	14	3,524	30	11	1,074	198	43
PNC Infra	20,452	-3	13	2,684	-4	12	1,055	-43	-30
NCC	54,660	36	15	5,097	20	6	2,439	37	15
KNR Constructions	11,793	0	30	2,032	-4	38	1,453	13	70

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak execution likely in FY25F; rich valuations

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 the 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 public sector undertakings or PSUs via IEBR grew at just a 7% CAGR.

Figure 3: Government spending on the infrastructure sector (excluding railways) - A

(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) - B

(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 general elections are ongoing in the country . 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	FY24	CAGR %
L&T domestic Construction	541	560	585	648	770	765	667	821	935	1,037	7
yoy growth %	-0	3	4	11	19	-1	-13	23	14	11	
Other companies	212	260	279	307	399	373	352	440	526	636	13
yoy growth %	13	23	7	10	30	-7	-6	25	20	21	
Total	753	820	864	955	1,169	1,138	1,018	1,261	1,462	1,673	9
yoy growth %	3	9	5	11	22	-3	-11	24	16	14	
Spending on Infra (ex railways) - capital + investment in PSUs (IEBR)	979	1,348	1,654	2,026	2,481	2,340	2,273	2,622	3,604		18
yoy growth %	-7	38	23	22	22	-6	-3	15	37		

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.

Industry average OB-to-sales ratio is 2.13x (27%/29% below Mar 2023/five-year average) and is likely to lead to weak execution in FY25F ▶

In 4QFY24, construction revenue of listed companies rose by just 7% yoy, much below the growth in 9MFY24 (up 18% yoy). Excluding L&T, sales rose by 14% yoy, vs. a 24% yoy rise in 9MFY24. The growth in 9MFY24 was in line with the historical trend of strong construction activity in the year prior to elections (FY09,14,19). Order inflow in 2HFY24/ FY24 declined by 35%/ 16% yoy. This, in tandem with a 14% sales growth in FY24, led to a 2% yoy decline in OB.

Note: The performance of L&T's domestic EPC business has a profound impact on the industry. In FY24, it comprised 62%/ 70%/ 67%/ 49% of industry's sales/ order inflow/ OB/ EBITDA, respectively, (based on our select companies).

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	4QFY24
Sales (Rs bn)											
Industry	514	626	349	668	513	751	630	831	761	415	498
yoy growth %			(32)	7	47	12	23	11	21	14	7
L&T Domestic construction	335	431	214	452	313	509	392	543	470	254	313
yoy growth %			(36)	5	46	13	26	7	20	7	3
Others	179	195	136	215	201	242	238	289	291	161	185
yoy growth %			(24)	11	48	12	18	19	22	27	14
Order flow (Rs bn)											
Industry	691	544	485	1,222	419	1,006	740	1,212	840	240	551
yoy growth %			(30)	125	(14)	(18)	77	20	13	(58)	(13)
L&T Domestic construction	520	369	227	843	268	614	475	741	553	193	404
yoy growth %			(56)	129	18	(27)	77	21	16	(51)	16
Others	172	175	258	379	151	392	266	471	288	47	147
yoy growth %			50	116	(42)	4	76	20	8	(74)	(49)
Order book (Rs bn)											
Industry	3,486	3,288	3,395	3,871	3,782	4,010	4,098	4,473	4,507	4,342	4,390
yoy growth %			(3)	18	11	4	8	12	10	1	(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	2,949
yoy growth %			(4)	13	12	1	5	10	9	1	3
Others	1,125	999	1,122	1,285	1,235	1,386	1,414	1,596	1,593	1,479	1,441
yoy growth %			(0)	29	10	8	14	15	13	0	(10)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The Mar 2024 OB-to-sales ratio (2.62x) was 14%/ 16% below that in Mar 2023/ five-year average, respectively. Excluding L&T, OB-to-sales ratio was at 2.27x and the decline was sharper (25%/ 24% below Mar 2023/ five-year average). **The average OB-to-sales was lower at 2.13x and was 27%/ 29% lower vs. Mar 2023/ five-year average.**

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

OB/ Sales (x)	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	3QFY24	4QFY24	% chg vs. Mar 23
Industry	2.89	3.48	3.81	3.20	3.17	2.97	3.06	2.83	2.64	2.62	(14.3)
L&T Dom. construction	2.99	3.53	3.89	3.33	3.19	2.98	3.08	2.88	2.78	2.84	(7.5)
Others	2.67	3.40	3.66	2.97	3.13	2.95	3.03	2.75	2.41	2.27	(25.3)
Dilip Buildcon	2.12	2.87	2.98	2.38	2.84	2.75	2.51	2.11	1.87	1.65	(34.2)
NCC	3.26	4.18	5.31	4.60	3.96	3.39	3.78	3.92	3.36	3.11	(17.8)
PNC	1.81	1.57	2.36	2.26	2.36	1.78	2.92	2.44	2.33	2.08	(28.7)
KNR	2.33	3.70	2.65	2.10	2.75	2.31	1.91	1.46	1.26	1.34	(29.8)
IRB Infra	0.91	1.21	2.03	1.45	2.43	2.21	2.12	1.65	1.38	1.06	(50.1)
HG Infra	3.23	3.29	2.79	2.00	2.21	2.88	2.89	2.25	1.94	2.43	(16.0)
HCC	4.59	7.14	6.90	4.60	3.42	2.79	2.83	2.30	2.05	2.08	(26.6)
ITD Cementation	5.48	6.54	5.31	4.05	4.78	5.77	4.29	3.59	2.98	2.60	(39.3)
Average OB/ Sales	2.97	3.78	3.80	2.97	3.11	2.98	2.92	2.51	2.22	2.13	(27.1)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

While the 1HFY24 industry order inflow rose by 13% yoy, we believe the weak 2HFY24F order inflow (down 35% yoy) will have a strong impact on FY25F sales. In FY22-23, 2H accounted for 66% of full-year order inflow but in FY24, 2H accounted for just 49%. Note: During 2HFY19 (prior to general elections), the order inflow of L&T, DBL and NCC together declined by 25% yoy.

Figure 9: In FY22-23, 2H accounted for 58%/ 66% of full-year sales/ order inflow for EPC companies; in FY24, contribution of 2H to full-year sales was 55% (similar to FY22-23) but just 49% of full-year order inflow (lower than in FY22-23)

2H as a % of full year	FY20	FY21	FY22	FY23	FY24
Sales					
Industry	55	66	59	57	55
L&T Dom. construction	56	68	62	58	55
Others	52	61	55	55	54
Order flow					
Industry	44	72	71	62	49
L&T Dom. construction	42	79	70	61	52
Others	51	59	72	64	40

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The FY24 industry EBITDA margin was at 10.2%, 156bp lower than in FY20. Excluding L&T, industry EBITDA margin was 13.7%, 280bp lower than in FY20. We believe the margin dip has a strong negative impact on EBITDA in a slim-margin sector like the construction sector. Over FY20-24, while industry sales grew at 10.1% CAGR, EBITDA grew at just 6.4% CAGR. Excluding L&T, industry sales grew at 14.2% CAGR but EBITDA grew at just a 9% CAGR.

Figure 10: EBITDA and EBITDA margin of listed players

	1HFY20	2HFY20	1HFY21	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23	1HFY24	3QFY24	4QFY24
EBITDA (Rs bn)											
Industry	61	72	39	82	58	84	64	87	75	41	55
yoy growth %			(37)	13	51	3	10	3	17	10	12
L&T Domestic construction	31	41	17	48	28	49	32	48	35	19	30
yoy growth %			(46)	17	69	1	16	(1)	7	(4)	7
Others	30	31	22	34	30	36	32	38	40	22	25
yoy growth %			(27)	8	37	5	5	8	27	26	18
EBITDA margin %											
Industry	11.9	11.6	11.1	12.2	11.3	11.2	10.2	10.4	9.9	9.9	11.1
L&T Domestic construction	9.2	9.5	7.8	10.6	9.0	9.5	8.2	8.9	7.4	7.6	9.6
Others	17.0	16.1	16.3	15.7	15.0	14.7	13.4	13.3	13.9	13.6	13.5
Dilip Buildcon	15.8	16.3	15.6	15.9	11.9	5.2	9.6	10.0	12.5	12.4	12.0
NCC	11.1	12.3	12.0	11.2	10.7	9.6	9.6	10.5	10.3	10.1	9.4
PNC	13.7	13.8	13.4	13.9	13.9	13.0	13.0	13.1	13.3	13.3	13.1
KNR	21.3	22.0	20.2	19.0	20.8	20.5	18.9	18.3	18.1	16.3	17.2
IRB Infra	30.1	29.7	33.0	30.0	31.2	45.6	29.6	28.8	30.9	28.5	28.8
HG Infra	15.3	15.9	16.5	16.2	16.5	15.9	15.6	16.4	16.0	15.9	16.2
HCC	19.0	5.4	16.4	8.6	11.2	21.0	14.8	12.7	13.3	12.4	15.0
ITD Cementation	12.2	12.5	1.8	13.7	10.3	8.9	9.9	9.3	10.1	10.9	10.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 results review for stocks under our coverage ➤

Figure 11: 4QFY24 results

Company	4QFY24	4QFY23	yoy %	3QFY24	qoq %
IRB Infra (Consolidated)					
Sales (Rs m)	20,612	16,200	27.2	19,685	4.7
EPC segment Sales including other income (Rs m)	15,394	11,514	33.7	14,407	6.9
BOT segment Sales including other income(Rs m)	6,401	5,475	16.9	6,366	0.5
EBITDA (Rs m)	8,899	7,587	17.3	8,695	2.3
EBITDA margin %	43.2	46.8		44.2	
Adj. PAT (Rs m)	1,261	1,307	(3.5)	1,874	(32.7)
IRB InvIT (Consolidated)					
Sales (Rs m)	2,733	2,572	6.3	2,678	2.1
EBITDA (Rs m)	2,316	2,043	13.4	1,947	19.0
EBITDA margin %	84.7	79.4		73	
Adj. PAT (Rs m)	1,031	1,209	(14.7)	809.0	27.4
Dilip Buildcon (Standalone)					
Sales (Rs m)	29,308	28,573	2.6	25,711	14.0
EBITDA (Rs m)	3,524	2,720	29.6	3,185	10.6
EBITDA margin %	12.0	9.5		12.4	
Adj. PAT (Rs m)	1,074	360	198.3	750	43.2
PNC Infra (Standalone)					
Sales (Rs m)	20,452	21,146	(3.3)	18,027	13.5
EBITDA (Rs m)	2,684	2,810	(4.5)	2,395	12.1
EBITDA margin %	13.1	13.3		13.3	
Adj. PAT (Rs m)	1,055	1,845	(43)	1,511	(30)
NCC (Standalone)					
Sales (Rs m)	54,660	40,163	36	47,469	15
EBITDA (Rs m)	5,097	4,238	20	4,793	6
EBITDA margin %	9.3	10.6		10.1	
Adj. PAT (Rs m)	2,439	1,777	37	2,128	15
KNR (Standalone)					
Sales (Rs m)	11,793	11,756	0	9,054	30
EBITDA (Rs m)	2,032	2,119	(4)	1,473	38
EBITDA margin %	17.2	18.0		16.3	
Adj. PAT (Rs m)	1,453	1,286	13	855	70

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Order inflow slows down in FY24 ➤

The average OB-to-sales ratio for companies under our coverage was 1.9x (FY24), lower than that in Mar 2023 (2.8x). Order inflow (Rs344bn) in FY24 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 (3.1x) is healthy, we note that over FY19-24 the average OB/ sales ratio was at 3.8x and sales grew at a CAGR of 9%. We forecast an 10% EPC sales CAGR over FY24-26F.

Figure 12: Order inflow (construction projects) over FY19-24 for EPC companies in our coverage

(Rs bn)	Order inflow						
	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Dilip Buildcon	141	64	69	175	72	99	25
NCC	220	207	(64)	186	99	242	273
PNC Infratech	37	80	12	79	92	129	23
IRB Infra	90	6	(12)	68	70	25	-
KNR Constructions	5	38	35	48	52	36	22
Total	493	396	39	557	385	531	344

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	FY24	FY19	FY20	FY21	FY22	FY23	FY24	
Dilip Buildcon	3.1	2.3	2.1	3.0	2.8	2.5	1.7	18	(2)	3	(2)	12	4	
NCC	4.3	3.4	3.2	5.2	4.0	3.8	3.1	60	(32)	(12)	39	34	39	
PNC Infratech	4.1	4.0	1.8	2.4	2.4	2.9	2.1	71	55	3	26	13	5	
IRB Infra	3.9	2.4	0.9	2.0	2.7	2.3	1.2	19	11	(25)	13	(3)	30	
KNR Constructions	1.2	1.9	2.4	2.6	2.8	2.4	1.3	11	5	20	22	14	7	
Average	3.3	2.8	2.1	3.0	2.9	2.8	1.9	36	8	(2)	20	14	17	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Order inflow in FY24 accounted for 34% of the order book

(Rs bn)	Order flow FY24 (A)	Order book FY24 (B)	A/B (%)
Dilip Buildcon	25	174	15
NCC	273	575	47
PNC Infratech	23	154	15
IRB Infra	-	57	-
KNR Constructions	22	53	42
Total	344	1,013	34

SOURCE: INCRED RESEARCH, COMPANY REPORTS

22% 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

(Rs bn)	Order book - FY19		Order book - FY24	
	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	174	22
NCC	412	-	575	14
PNC Infratech	122	34	154	33
IRB Infra	111	85	57	69
KNR Constructions	40	40	53	30
Total	897	24	1,013	22

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Stocks trade at a premium to their six-year median EV/EBITDA ▶

NCC, PNC Infratech and KNR Construction are trading at a premium to their six-year median EV/EBITDA while DBL trades close to its six-year median.

Figure 16: Valuations of main third-party construction companies

	EV/ EBITDA (x) for EPC segment		Premium (%) of FY25F multiple
	6-year median	FY25F	vs. 6-year median
Dilip Buildcon	5.6	5.2	(7)
NCC	5.9	10.5	78
PNC Infratech	5.8	10.0	72
KNR Constructions	8.2	10.0	22
Average	6.4	8.9	40

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Highlights of 4QFY24 results of companies in our coverage ►

Dilip Buildcon – weak OB: EBITDA rose by 30% yoy (in line with our estimate). The EBITDA margin (12%) was below DBL's guidance (13-14%). Despite Rs9.5bn new orders, OB declined to Rs44bn qoq due to removal of a Rs23bn project. OB/sales declined from 2.5x (Mar 2023) to 1.7x. Over FY19-24, average OB/sales was 2.4x and sales rose by 3% p.a. We forecast flat EPC sales over FY24-26F due to weak OB/sales and 13% EBITDA margin.

IRB Infrastructure – trading at 3x P/BV, vs. 10-year median of 1.3x: EPC sales rose by 34% yoy. EPC OB-to-sales ratio was at 1.2x and O&M OB stands at Rs291bn. We believe that O&M contracts can provide ~Rs18bn revenue p.a. We forecast a 17% EPC sales CAGR over FY23-26F. The executable OB over the next two years is Rs80bn, and thus IRB Infra needs order wins to sustain 15% p.a. growth in the next two years. IRB Infra's (ex-InvIT) toll revenue increased by 18% yoy. Private InvIT's toll revenue grew by 38% yoy, driven by new projects.

PNC Infratech – weak margin guidance: EPC EBITDA declined by 4% yoy. PNC gave guidance of just 12-12.5% EBITDA margin in FY25F, lower than in FY24 (13.3%) due to higher competition. OB/ sales was at 2.1x in Mar 2024. PNC was declared having a L1 status for two projects of Rs50bn in 1QFY25 – execution to start in 4QFY25F. Including these, OB/ sales ratio is at 2.8x. PNC expects new orders of Rs130-150bn in FY25F, ahead of the FY20-24 average (Rs67bn). In Jan 2024, PNC executed an agreement with Highways Infra Trust to divest 12 assets for an equity value of Rs29bn (1.7x P/BV).

NCC – weak FY25F outlook: EBITDA grew by 20% yoy. NCC expects a 15% yoy sales growth in FY25F but muted EBITDA margin of 9.5-10% (due to high competition) vs. 10% in FY24. NCC expects the slowdown in execution in 1QFY25F. During FY24, NCC won orders worth Rs273bn driven by Rs203bn of orders in 1H. NCC gave guidance of ~25% yoy dip in the order inflow in FY25F. OB/sales ratio declined from 3.9x (Sep 2023) to 3.1x. Over FY19-24, average OB/ sales was at 3.8x and sales grew 9% p.a. We forecast a 7% EPC sales CAGR over FY24-26F.

KNR Constructions – weak order book is an area of concern: EPC EBITDA declined 4% yoy. The EBITDA margin (17.2%) was lower than its three-year average (18.9%). OB/ sales ratio declined from 2.8x in Mar 2022 to 1.3x in Mar 2024. While KNR Constructions is targeting orders worth Rs50-60bn in FY25F, over FY22-24 the average order flow p.a. was lower (Rs30bn). The company has orders worth Rs12bn not yet included in the OB. Even after including these, OB/ sales ratio is just 1.6x. Over FY19-24, the average OB/sales ratio was at 2.2x and sales grew at a 15% CAGR. We forecast flat EPC sales over FY24-26F.

IRB InvIT – steady results, fairly valued: EBITDA grew by 13% yoy (in line with our estimate). Toll income for five assets rose by 12% yoy driven by a 5% tariff hike in four projects (Apr 2023) and traffic growth. IRB expects a tariff hike of 4% in Jun 2024F. Construction of three projects of IRB Infra (Rs21bn cost) is expected to be completed in FY25F-26F and six months later, they would be eligible for acquisition by IRB InvIT. The yield in FY24 was ~12%. IRB expects a higher payout in FY25F.

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