

India

**Underweight** (no change)**Highlighted Companies****IRB Infrastructure Developers Ltd****REDUCE, TP Rs40, Rs57 close**

The EPC OB/sales ratio stood at 0.8x and is a cause of concern. The stock trades at an expensive valuation of 2.3x FY25F P/BV vs. 10-year median of 1.3x.

**KNR Constructions Ltd****REDUCE, TP Rs222, Rs346 close**

Over FY19-24, the average OB/sales ratio was 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 (1.2x).

**NCC Ltd****REDUCE, TP Rs150, Rs274 close**

While the OB/sales ratio (2.7x) is healthy, over FY19-24, the average OB/sales ratio was 3.8x and sales grew at a 9% CAGR. We forecast a 7% EPC sales CAGR over FY24-26F.

**Summary Valuation Metrics**

P/E (x)	Mar25-F	Mar26-F
IRB Infrastructure Developers Ltd	30.08	23.5
KNR Constructions Ltd	18.49	16.76
NCC Ltd	18.12	17.06
P/BV (x)	Mar25-F	Mar26-F
IRB Infrastructure Developers Ltd	2.29	2.09
KNR Constructions Ltd	2.55	2.22
NCC Ltd	2.18	1.94
Dividend Yield	Mar25-F	Mar26-F
IRB Infrastructure Developers Ltd	0.39%	0%
KNR Constructions Ltd	0.18%	0.18%
NCC Ltd	0.31%	0.33%

# Constrn & Material - Overall

## 3QFY25 results preview

- We expect a 12% yoy decline in 3QFY25F EPC sales of companies in our coverage universe, barring NCC where we factor in a 10% yoy rise in sales.
- We have an Underweight rating on the sector because of a likely slowdown in project execution in FY25F and stretched stock valuations.

**3QFY25 results expectations**

We expect a 12% yoy decline in EPC sales in 3QFY25F for Dilip Buildcon (DBL), PNC Infratech & KNR Constructions together. We expect 10% 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 a steady EPC EBITDA margin for companies in our coverage universe, like that in 2QFY25.

**Execution of Infrastructure projects: Likely speed bump in FY25F**

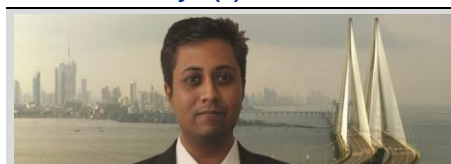
The government's capex on the infrastructure sector via (a) budgetary support, and (b) investment in public sector undertakings (PSUs) via internal and extra budgetary resources (IEBR) grew at a 17% CAGR (FY16-24). Project execution in the years of general elections fell by an average 5% yoy in four prior instances, independent of whether there was a change in the government or not. We expect a 5% dip in execution in FY25F. There are hopes of a revival in orders in 2HFY25, leading to strong sales growth in FY26F. However, even factoring in a 15-20% yoy sales growth in FY26F implies a 5-8% sales CAGR (FY24-26F).

**Coverage companies: Concern over slim OB-to-sales ratio**

EPC EBITDA in 2QFY25 for companies in our coverage universe declined by 23% yoy. The average OB-to-sales ratio was 1.9x (vs. 2.8x in Mar 2023). Order inflows (Rs344bn) in FY24 and in 1HFY25 (Rs147bn) were lower than the run-rate in FY23 (Rs531bn). We factor in a 6% average EPC sales CAGR (FY24-26F) vs. 9% (FY19-24). When compared to Mar 2023, the latest OB-to-sales is lower for all our coverage companies.

**Key stock calls: REDUCE NCC, KNR Constructions & IRB Infra**

Over the last six months, the stock price of companies in our coverage universe declined by 14% on an average. NCC & KNR Constructions are trading at expensive EV/ EBITDA. PNC Infratech trades at close to its historical average and Dilip Buildcon trades at a discount to its historical average. We have a REDUCE rating on NCC and KNR, valuing their EPC business at 6x FY26F EV/EBITDA each. We also have a REDUCE rating on IRB Infrastructure due to its rich valuation (2.3x FY25F P/BV). Strong order inflow in FY25F vs. our estimate is an upside risk.

**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

**Figure 1: 3QFY25F earnings of companies under our coverage**

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
IRB Infrastructure	18,458	-11	10	8,314	-4	8	1,157	-38	158
IRB InvIT	2,813	5	7	2,307	18	7	925	14	8
Dilip Buildcon	22,836	-11	5	2,512	-21	13	513	-32	64
PNC Infratech	15,802	-12	38	1,896	-21	42	1,200	-21	48
NCC	52,370	10	18	4,975	4	24	2,394	13	49
KNR Constructions	7,868	-13	-8	1,220	-17	-12	2,394	-14	-22

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 3QFY25 results preview

**Figure 2: 3QFY25F estimates for companies under our coverage**

Company	3QFY25F	3QFY24	yoy %	2QFY25	qoq %	Comments
<b>IRB Infrastructure (Consolidated)</b>						
Sales (Rs m) including other income	18,458	20,773	(11.1)	16,716	10.4	We expect 18% decline in EPC sales yoy and 5% yoy rise in BOT Sales.
EPC segment Sales (Rs m)	11,774	14,407	(18.3)	10,717	9.9	
BOT segment Sales (Rs m)	6,684	6,366	5.0	5,999	11.4	
EBITDA (Rs m)	8,314	8,695	(4.4)	7,667	8.4	
EBITDA margin %	45.0	41.9		45.9		
Adj. PAT (Rs m)	1,157	1,874	(38.3)	449	157.7	
<b>IRB InvIT (Consolidated)</b>						
Sales (Rs m)	2,813	2,678	5.0	2,627	7.1	We expect 18.5% yoy rise in EBITDA yoy driven by 5% yoy rise in sales and better EBITDA margin yoy.
EBITDA (Rs m)	2,307	1,947	18.5	2,164	6.6	
EBITDA margin %	82.0	72.7		82.4		
Adj. PAT (Rs m)	925	809	14.3	853	8.4	
<b>Dilip Buildcon (Standalone)</b>						
Sales (Rs m)	22,836	25,711	(11.2)	21,769	4.9	We expect 11.2% yoy dip in Sales and 21% yoy dip in EBITDA.
EBITDA (Rs m)	2,512	3,185	(21.1)	2,221	13.1	
EBITDA margin %	11.0	12.4		10.2		
Adj. PAT (Rs m)	513	750	(31.6)	312	64.4	
<b>PNC Infratech (Standalone)</b>						
Sales (Rs m)	15,802	18,027	(12.3)	11,491	37.5	We expect 12% yoy decline in Sales and 21% yoy decline in EBITDA .
EBITDA (Rs m)	1,896	2,395	(20.8)	1,336	41.9	
EBITDA margin %	12.0	13.3		11.6		
Adj. PAT (Rs m)	1,200	1,511	(20.6)	809	48.3	
<b>NCC (Standalone)</b>						
Sales (Rs m)	52,370	47,469	10.3	44,450	17.8	We expect 10.3% yoy rise in sales and 3.8% rise in EBITDA.
EBITDA (Rs m)	4,975	4,793	3.8	4,012	24.0	
EBITDA margin %	9.5	10.1		9.0		
Adj. PAT (Rs m)	2,394	2,128	13	1,606	49	
<b>KNR Constructions (Standalone)</b>						
Sales (Rs m)	7,868	9,054	(13)	8,560	(8)	We expect 13% decline in Sales and 17% yoy decline in EBITDA due to slim OB-to-sales.
EBITDA (Rs m)	1,220	1,473	(17)	1,380	(12)	
EBITDA margin %	15.5	16.3		16.1		
Adj. PAT (Rs m)	733	855	(14)	935	(22)	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Order inflow slows down in FY24-1HFY25 ►

The average OB-to-sales ratio for companies under our coverage was 1.9x, lower than that in Mar 2023 (2.8x). Order inflows (Rs344bn) in FY24 and just Rs147bn in 1HFY25 were 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 (2.7x) 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 a 10% EPC sales CAGR over FY24-26F.

**Figure 3: Order inflow (construction projects) over FY19-1HFY25 for EPC companies in our coverage**

(Rs bn)	Order inflow						
	FY19	FY20	FY21	FY22	FY23	FY24	1HFY25
Dilip Buildcon	64	69	175	72	99	25	21
NCC	207	(64)	186	99	242	273	52
PNC Infratech	80	12	79	92	129	23	66
IRB Infrastructure	6	(12)	68	70	25	-	-
KNR Constructions	38	35	48	52	36	22	8
<b>Total</b>	<b>396</b>	<b>39</b>	<b>557</b>	<b>385</b>	<b>531</b>	<b>344</b>	<b>147</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

	Order book/ Sales (x)							yoy Sales growth (%)						
	FY19	FY20	FY21	FY22	FY23	FY24	2QFY25	FY19	FY20	FY21	FY22	FY23	FY24	1HFY25
Dilip Buildcon	2.3	2.1	3.0	2.8	2.5	1.7	1.7	18	(2)	3	(2)	12	4	(10)
NCC	3.4	3.2	5.2	4.0	3.8	3.1	2.7	60	(32)	(12)	39	34	39	10
PNC Infratech	4.0	1.8	2.4	2.4	2.9	2.1	3.2	71	55	3	26	13	5	(31)
IRB Infrastructure	2.4	0.9	2.0	2.7	2.3	1.2	0.8	19	11	(25)	13	(3)	30	(1)
KNR Constructions	1.9	2.4	2.6	2.8	2.4	1.3	1.2	11	5	20	22	14	7	(10)
<b>Average</b>	<b>2.8</b>	<b>2.1</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>1.9</b>	<b>1.9</b>	<b>36</b>	<b>8</b>	<b>(2)</b>	<b>20</b>	<b>14</b>	<b>17</b>	<b>(8)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Order inflow in 1HFY25 accounted for 15% of the order book**

(Rs bn)	Order flow 1HFY25 (A)	Order book 1HFY25 (B)	A/B (%)
Dilip Buildcon	21	186	11
NCC	52	526	10
PNC Infratech	66	141	47
IRB Infrastructure	-	48	-
KNR Constructions	8	49	16
<b>Total</b>	<b>147</b>	<b>950</b>	<b>15</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Despite the decline in CMPs in the last six months, most stocks are trading at a premium to their six-year median EV/EBITDA ►**

Over the last six months, stock prices of companies in our coverage have declined by an average 14%. Despite the decline, NCC and KNR Constructions are trading at expensive EV/ EBITDA valuations. PNC Infratech is trading at close to its historical average and Dilip Buildcon or DBL is trading at below its historical average.

**Figure 6: Change in CMPs in the last six months (%)**

	Six-month change in CMP
IRB Infra	(12)
Dilip Buildcon	(14)
PNC Infra	(31)
NCC	(15)
KNR Constructions	-
<b>Average</b>	<b>(14)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Valuations of main third-party construction companies**

	EV/ EBITDA (x) for EPC segment		Premium (%) of FY25F multiple vs.
	6-year median	FY26F	6-year median
Dilip Buildcon	5.6	4.6	(18)
NCC	6.1	9.2	51
PNC Infratech	5.9	5.8	(2)
KNR Constructions	8.7	10.7	23
<b>Average</b>	<b>6.6</b>	<b>7.6</b>	<b>15</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. While every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which is believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made (information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short-term views, etc.) that are inconsistent with and reach a different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

#### Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based on any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.

#### Recommendation Framework

##### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

##### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

##### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.