

India

Overweight (no change)

Highlighted Companies

Dilip Buildcon Ltd

ADD, TP Rs400, Rs241 close

DBL has a strong order book or OB (2.6x TTM sales in Dec 2021) and 88% of OB is expected to be under the construction phase in FY23F. DBL trades at an attractive valuation of 3.6x FY23F EV/EBITDA, at a 40% discount to its five-year average.

NCC Ltd

ADD, TP Rs80, Rs59 close

After securing orders worth Rs91bn in 9MFY22, OB/sales stood at 4.3x. This, in tandem with the beginning of execution of Rs99bn 'Jal Jeevan project', in our view, augurs well. NCC trades at an attractive valuation (standalone 4.8x FY23F EV/EBITDA vs. five-year median of 6.5x).

IRB Infrastructure Developers Ltd

ADD, TP Rs293, Rs251 close

Fund-raising has provided growth capital, but at a 72% equity dilution. Recent project win, in our view, provides EPC revenue growth visibility.

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Dilip Buildcon Ltd	-7.12	8.08	6.92
NCC Ltd	9.37	7.19	6.16
IRB Infrastructure Developers Ltd	33.67	12.56	7.79

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Dilip Buildcon Ltd	1.21	1.06	0.92
NCC Ltd	0.65	0.59	0.54
IRB Infrastructure Developers Ltd	1.19	1.09	0.96

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Dilip Buildcon Ltd	0.5%	0.5%	0.5%
NCC Ltd	0.53%	0.72%	0.83%
IRB Infrastructure Developers Ltd	0%	0%	0%

Analyst(s)



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Construction

Well-placed for strong FY24F performance

- Infrastructure sector execution - speed bump in FY25F (general elections in India in 2024) and persistent high crude oil prices are key areas of concern.
- With 2.9x order book/sales in Dec 2021, companies have to fund 22% of their order book, like in Mar 2019. Execution can re-rate DBL, PNC and NCC.
- Maintain Add on DBL and Reduce on KNR; upgrade to Add from Hold in case of NCC, IRB Infra and IRB InvIT; upgrade to Add from Reduce in case of PNC.

Infra sector: Speed bump in FY25F likely due to 2024 polls, oil price

Government capex on infrastructure via a) budgetary support, and b) investment in public sector undertakings (PSUs) via internal and extra budgetary resources (IEBR) has grown at a 10% CAGR (FY09-22). Project execution during general elections in India fell sharply yoy in FY10, FY15 and FY20. We expect strong execution in FY24F followed by a dip in FY25F (general elections likely in May 2024). Sustained elevated prices of crude oil (up 70% since Dec 2021) could be a dampener for execution of infrastructure projects. Government spending on infrastructure was muted over FY10-13 (1% CAGR) – a period of elevated crude oil prices. EBITDA margin of EPC companies over FY14-22F have been stable, despite volatility in raw material prices due to escalation clause in EPC contracts, whereby the material price volatility is borne by the government project-awarding entity.

Execution can re-rate DBL, PNC, NCC; KNR trades at rich valuation

Since Mar 2020, order flow has picked up (Rs852bn over FY21-9MFY22), resulting in average OB/sales at 2.9x (Dec 2021). The companies in our coverage must fund 22% of their Dec 2021 OB (similar to Mar 2019). Dilip Buildcon (DBL), PNC Infra (PNC) and NCC trade at an average 25% discount to their five-year average EV/EBITDA. We believe strong EPC sales growth in FY23F-24F can re-rate the valuation multiples. KNR Constructions (KNR) trades at a 47% premium to its five-year average EV/EBITDA. DBL and NCC have the highest target EPC segment enterprise value as a proportion of target equity valuation. Re-rating of EV/EBITDA multiple and/or a strong financial performance can have the highest impact on DBL and NCC. Consolidated net debt/market capitalization is high for DBL. Thus, an expansion in EV of DBL can have a substantial impact on its share price.

Retain Add on DBL, Reduce on KNR; upgrade to Add from Hold (NCC, IRB Infra, IRB InvIT) and upgrade to Add from Reduce (PNC)

We roll forward our valuations to Mar 2023F. We use EV/EBITDA multiple to value the EPC segment, DCF for operational road assets and 1x capex for under-construction road assets. We maintain a) Add on DBL (TP: Rs400) valuing its EPC business at 5x FY24F EV/EBITDA (25% discount to five-year median), and b) Reduce on KNR (TP Rs261) valuing its EPC business at 7.5x FY23F EV/EBITDA (17% premium to five-year median). We upgrade a) PNC to Add (from Reduce earlier) with a TP of Rs316, valuing its EPC business at 6x EV/EBITDA (close to five-year median), (b) NCC to Add (from Hold) with a TP of Rs80, valuing its EPC business at 5.5x FY24F EV/EBITDA (15% discount to five-year median), (c) IRB Infra to Add (from Hold) with a TP of Rs293, valuing its EPC segment at 4x FY24F EV/EBITDA, and (d) IRB InvIT to Add (from Hold) with a TP of Rs63, using a discount rate of 10.7%. Difficulties in financial closure of new Hybrid Annuity Model (HAM) projects and slowdown in project execution are key downside risks for the sector.

Figure 1: Valuation summary

	Bloomberg ticker	Rating	Target Price (Rs)	Closing Price (Rs)	EPS (Rs)		P/E (x)	
					FY23F	FY24F	FY23F	FY24F
NCC	NJCC IN	ADD	80	59	8.1	9.5	7.2	6.2
IRB Infra	IRB IN	ADD	293	251	23.1	32.4	5.0	3.5
PNC Infra	PNCL IN	ADD	316	261	16.4	19.4	16.0	13.5
Dilip Buildcon	DBL IN	ADD	400	241	29.8	34.8	8.1	6.9
KNR Constructions	KNRC IN	REDUCE	261	285	16	19	18	15
IRB InvIT	IRBINVIT IN	ADD	63	53	2.3	3.5	15.0	12.7

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Well-placed for strong FY24F performance

Trend in infrastructure spending (FY10-22F): Speed bump in FY25F (2024 general elections) and persistent elevated crude oil prices are areas of concern ▶

Government capex on infrastructure via budgetary support grew at a 24% CAGR (FY16-22F). We estimate government capex on infrastructure via a) budgetary support, and b) investment in public sector undertakings or PSUs via internal and extra budgetary resources (IEBR) has grown at a 13% CAGR (FY16-22F).

Figure 2: Spending by government on infrastructure sector

(yoy growth %)	FY17	FY18	FY19	FY20	FY21	FY22RE	CAGR FY16-22
Total	20	11	31	(14)	13	24	13
Revenue Expenditure	6	21	0	3	12	42	13
Capital Expenditure	38	6	26	9	45	22	24
Investment in PSU - IEBR	16	10	48	(31)	(13)	18	5
Capital + Investment in PSU - IEBR	23	9	40	(17)	13	20	13

Note: IEBR - Internal and Extra budgetary resources, PSU - Public sector Undertakings

SOURCES: INCRED RESEARCH, BUDGET DOCUMENTS

Budgetary support for government capex on infrastructure (excluding railways) grew at a 18% CAGR (FY09-22F). We estimate government capex on infrastructure via a) budgetary support, and b) investment in PSUs via IEBR has grown at a 10% CAGR (FY09-22F). Note: Railway budget was included in the Union budget from FY16, hence for comparison over FY10-22F, we use numbers excluding the spending on railways

Figure 3: Spending by government on infrastructure sector (excluding railways)

(yoy growth %)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 RE	CAGR FY09-22
Total ex Railways	(5)	5	4	4	19	(2)	35	18	21	17	(4)	1	29	10
Revenue Expenditure	9	12	(4)	2	(1)	12	28	6	18	0	3	11	43	10
Capital Expenditure	(37)	45	(11)	47	25	42	6	48	15	29	(1)	25	39	18
Investment in PSU - IEBR	(5)	(6)	14	(3)	30	(21)	54	14	26	20	(8)	(16)	13	7
Capital + Investment in PSU - IEBR	(11)	1	9	5	29	(7)	38	23	22	22	(6)	(3)	24	10

SOURCES: INCRED RESEARCH, BUDGET DOCUMENTS

Project execution during general elections in India declined sharply yoy in three prior instances: Infrastructure spending growth during the period of general elections (FY10, FY15, FY20) witnessed a sharp dip vs. trendline growth. However, we observe that infrastructure spending has been robust in the year before general elections (FY14, FY19) as the government ramps up execution prior to elections. The next general elections are likely in May 2024. We expect strong execution in FY24F, followed by a dip in growth in FY25F.

Impact of high crude oil prices (up 70% in three months) on execution of infrastructure projects: This may stretch government finances via higher oil subsidy and/ or lead to higher inflation. While the current price (US\$133/bbl) is 20% higher than in FY11-12 in USD terms, in INR terms it is 90% higher because of a 60% depreciation in the USD/ INR exchange rate over FY12-21.

- Prices of crude oil remained elevated over FY11-14. The government spending on infrastructure was muted over FY10-13 (1% CAGR over FY09-13).
- Prices of crude oil were benign over FY15-17. The government spending on infrastructure rose by a 18% CAGR over FY14-17.

Historically, the volatility in the price of diesel is lower than that of crude oil. Current diesel price is similar to the FY22F average, despite the current price of crude oil being ~70% higher than the FY22F average. We believe that if elevated crude oil price persists for a long time there could be a) 30-40% rise in the price of diesel from current level and/or b) government finances may get stretched.

Figure 4: Prices of crude oil and diesel, and growth in government spending on infrastructure sector

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22RE	Latest
Crude oil (Rs/ bbl)	3,893	3,309	5,103	5,376	5,908	6,365	3,550	2,758	3,402	4,238	4,795	3,822	3,636	5,759	10,010
yoy growth %	18	(15)	54	5	10	8	(44)	(22)	23	25	13	(20)	(5)	58	74
Diesel (Rs/ lit)	35	36	40	43	48	56	58	50	56	60	71	68	75	91	91
yoy growth %	6	1	12	7	12	16	5	(14)	12	8	17	(3)	10	22	(1)
% yoy growth of Capital + Investment in PSU - IEBR	20	(11)	1	9	5	29	(7)	38	23	22	22	(6)	(3)	24	

SOURCES: INCRED RESEARCH, BUDGET DOCUMENTS, BLOOMBERG, INDIAN OIL CORPORATION LIMITED

EBITDA margin of infrastructure companies is insulated from the sharp rise in raw material prices ➤

Prices of major raw materials for construction sector like cement/diesel/steel/bitumen in 3QFY22 were 5%/ 18%/ 24%/ 17% higher, respectively, vs. 4QFY21 levels and latest prices of the same materials have risen by 7%/ 12%/ 35%/ 60%, respectively, from 4QFY21 levels. Despite the rise, EBITDA margins of companies (ex-Dilip Buildcon) have been steady over 2QFY21-3QFY22.

Diesel and bitumen are derived from crude oil. While latest prices of diesel/bitumen increased 12%/ 60%, respectively, from 4QFY21 levels, the price of crude oil is 119% higher vs. 4QFY21 level. Thus, we believe that a further rise in diesel and bitumen prices is possible in case of an extended period of elevated crude oil prices.

Figure 5: Change in prices of main raw materials used for construction

(%)	Percentage price (Rs) change of		
	Latest vs. 3QFY22	Latest vs. 4QFY21	3QFY22 vs. 4QFY21
Cement	2	7	5
Diesel	(5)	12	18
Steel HRC	9	35	24
Bitumen	36	60	17
Crude oil	72	119	27

SOURCES: INCRED RESEARCH, COMPANY REPORTS, INDIAN OIL CORPORATION, BLOOMBERG

Figure 6: EBITDA margin of EPC companies over 2QFY21-3QFY22

(%)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Dilip Buildcon	15.9	16.5	15.5	13.2	10.6	0.3
PNC Infra	13.5	13.5	14.1	14.0	13.7	13.4
NCC	13.6	12.5	11.1	10.6	10.8	10.8
KNR Constructions	20.6	19.7	18.4	19.4	22.2	20.7
Average	15.9	15.5	14.8	14.3	14.3	11.3
Average ex DBL	15.9	15.2	14.5	14.6	15.6	15.0
WPI inflation	0.5	1.9	5.1	12.0	11.7	14.3

SOURCES: INCRED RESEARCH, COMPANY REPORTS

EBITDA margins of EPC companies over FY14-22F have been stable, despite volatility in raw material prices.

- This is because of escalation clauses in EPC contracts, whereby the material price volatility is borne by the government project-awarding entity.
- For under-construction BOT toll/annuity projects, the initial toll rate/annuity gets adjusted upwards/downwards, depending on Wholesale Price Index or WPI inflation during the construction period.

Figure 7: EBITDA margin of EPC companies over FY14-FY22F

(%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22F
Dilip Buildcon	18.2	20.1	18.4	17.8	17.2	17.5	16.4	15.8	8.8
PNC Infra	12.3	13.9	13.2	13.1	14.5	14.1	13.7	13.7	13.7
NCC	6.6	7.8	8.9	8.7	11.3	11.8	12.5	11.8	10.8
KNR Constructions	15.1	14.4	16.9	14.9	19.9	20.0	21.7	19.8	19.5
Average	13.1	14.0	14.4	13.6	15.7	15.8	16.1	15.3	13.2
Average ex DBL	11.3	12.0	13.0	12.2	15.2	15.3	16.0	15.1	14.7
WPI inflation	5.3	1.3	(3.6)	1.8	2.9	4.3	1.7	1.3	12.7

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Status update on road sector: Uptick in project-awarding required to sustain execution ➤

During FY19-21, road projects awarded lagged execution (just 72% average awards/execution). However, during the preceding four years (FY15-18), project-awarding was strong (179% average awards/execution). We believe the strong order backlog built up over FY15-18 has facilitated the strong execution over FY19-21. **After the muted project-ordering in FY19-21, we believe that an uptick in awarding projects is imperative to sustain project execution.**

Figure 8: Road sector project awards and execution - NHAI and MORTH

(000 km)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Total Awards	3.9	10.0	9.9	1.9	3.2	8.0	10.1	15.9	17.1	5.5	9.0	10.5
yoy growth %		156	(1)	(81)	67	150	27	58	7	(68)	63	17
NHAI	3.4	4.6	6.3	1.1	1.5	3.1	4.4	4.3	7.4	2.2	3.2	4.8
MORTH ex NHAI	0.5	5.4	3.6	0.8	1.7	4.9	5.7	11.6	9.7	3.3	5.8	5.7
Total execution	5.0	4.5	5.1	5.7	4.3	4.4	6.1	8.2	9.8	10.9	10.2	13.3
yoy growth %		(10)	12	13	(26)	4	37	36	19	10	(6)	30
NHAI	2.7	1.8	2.2	2.8	1.9	1.5	2.0	2.6	3.1	3.4	4.0	4.8
MORTH ex NHAI	2.3	2.7	2.8	2.9	2.4	2.9	4.1	5.6	6.8	7.5	6.3	8.5
Total awards/ execution (%)	78	221	196	33	75	181	167	194	174	51	88	79

SOURCES: INCRED RESEARCH, MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

Bharatmala phase 1: Ministry of Road Transport and Highways (MORTH) envisages construction of 34.8k km of highways at an estimated cost of Rs6.9tr (Rs199m/km). Construction on 7k km has been completed (20% of total).

As at end-Dec 2021, 20k km has been awarded (57% of total) while 1k km is approved and yet to be awarded (3% of total). Out of the planned expenses for awarded and approved length (21k km for Rs6.4tr), 47%/ 51%/ 2% is expected via EPC/ HAM/ BOT, respectively. Thus, 20% of the total funding (32% of construction cost) for the currently approved length is expected from private sector.

Our cost estimate for Bharatmala Phase-1 (34.8kkm for Rs7.4tr, Rs0.5tr more than MORTH estimate): We expect construction cost of Rs4.5tr (Rs130m/km). We estimate 87k hectare land is required for 34.8k km of highway (1km requires incremental 2.5 ha - incremental 25m width). Based on average land acquisition cost of Rs33m/ha for NHAI over FY18-20, we estimate land acquisition cost of Rs2.9tr (Rs83m/km).

Figure 9: Planned mode of construction of the awarded and approved portion of Bharatmala Phase-1

	Length (km)	% of length	Cost (Rs bn)	% of cost	Rs mn/ km
EPC	11,710	56	2,995	47	256
HAM	8,781	42	3,296	51	375
BOT Toll	473	2	126	2	266
Total	20,964	100	6,417	100	306

SOURCES: INCRED RESEARCH, MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

Figure 10: Expenditure during the last six years for NHDP/ Bharatmala Phase-1

(Rs bn)	CRF Cess	Toll Remittances	TOT monetisation	IEBR raised	Private sector
FY15	96	54	-	33	192
FY16	210	65	-	233	298
FY17	74	75	-	331	160
FY18	154	85	-	505	165
FY19	166	96	97	612	206
FY20	157	106	50	750	219
FY21	272	115	73	650	125
9MFY22	313	127	-	455	166
FY22E	417	169	-	607	222
Avg FY20-22	282	130	61	669	189

SOURCES: INCRED RESEARCH, MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

Planned financing for Bharatmala Phase-1 by MORTH (Rs6.9tr):

- **Budgetary allocation (Rs3tr):** Based on average budgetary support over FY20-22F (Rs282bn), the requirement estimated by MORTH can be met over 11 years. **Thus, we believe that budgetary support per annum needs to be increased significantly to meet the target in a shorter time span.** Note: Funding from Union budget has reduced from 25% (FY15) to 12% (FY17). However, budget support increased from 12% (FY20) to 29% (9MFY22).
- **Private sector (Rs1.1tr):** This is 25% of our expected construction cost (Rs4.5tr). Based on average funding by the private sector (FY20-22F), we expect the requirement of Rs1.1tr to be met over five years. Note: Private sector's contribution to funding for road projects has declined steadily from 51% (FY15) to just 16% (9MFY22).
- **Toll operate-transfer monetization (Rs0.34tr):** We believe this requires projects having toll collections to the tune of Rs24bn, assuming a 30-year concession period, 80% EBITDA margin in first year of operations and a 11% discount rate.
- **Toll collections (Rs0.46tr):** Based on FY22F toll collections (Rs169bn), minus the expected toll from planned TOT projects (Rs24bn), we believe 4-5 years of net toll collections can meet the requirement.

- **Balance Rs2.1tr via IEBR:** Funding from IEBR has increased from 9% (FY15) to 52% (FY17). Over FY17-9MFY22, the funding via IEBR has been steady (43% in 9MFY22).

Order flow picked up in FY21-9MFY22 after a lull in FY20 ▶

After a strong order flow in FY18-19, net order flow plummeted in FY20 to Rs39bn (90% yoy decline) for EPC companies in our coverage, partly due to order cancellations in FY20 for NCC (Rs132bn) and IRB Infra (Rs35bn). Adjusted for cancellations, FY20 order flow was Rs211bn (50% yoy decline).

For EPC companies in our coverage, sales grew 36% yoy in FY19 due to strong order book (OB)-to-sales in FY18 (average 3.6x) and healthy order flow in FY19. In FY20, sales declined 5% yoy as order flow dried up. OB-to-sales ratio declined to just 2.2x in FY20. Since Mar 2020, order flow has picked up (Rs852bn in FY21-9MFY22). Thus, average OB-to-sales ratio for companies under our coverage was 2.9x in 9MFY21. This augurs well for sales growth in FY23F-24F.

Figure 11: Order flow over FY19 to 9MFY22 for EPC companies in our coverage

(Rs bn)	Order inflow			
	FY19	FY20	FY21	9MFY22
Dilip Buildcon	64	69	175	32
NCC	207	(64)	186	91
PNC Infra	80	12	79	48
IRB Infra	6	(12)	68	73
KNR Constructions	38	35	48	52
Total	396	39	557	295

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 12: OB-to-sales and sales growth of EPC companies in our coverage

	Order book/ Sales (x)					Sales growth (%)			
	FY18	FY19	FY20	FY21	Dec 21	FY19	FY20	FY21	9MFY22
Dilip Buildcon	3.1	2.3	2.1	3.0	2.6	18	(2)	3	3
NCC	4.3	3.4	3.2	5.2	4.3	60	(32)	(12)	47
PNC Infra	4.1	4.0	1.8	2.4	2.0	71	55	3	34
IRB Infra	3.9	2.4	0.9	2.0	2.9	19	11	(25)	24
KNR Constructions	1.2	1.9	2.4	2.6	3.1	11	5	20	28
Total	3.5	2.9	2.2	3.3	2.9	36	(5)	(5)	25

SOURCES: INCRED RESEARCH, COMPANY REPORTS

22% of 9MFY22 OB has to be funded by private road developers, similar to FY19 (24%) ▶

Around 18% of 9MFY22 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%.

11 percent of 9MFY22 OBs comprise build-operate-transfer (BOT) projects, which the concessionaire has to fund entirely. As a result, the companies in our coverage have to fund 22% of 9MFY22 OB.

Figure 13: Percentage of OBs to be funded by companies in our coverage

(Rs bn)	Order book FY19		Order book Dec 21	
	Total	% to be funded by company	Total	% to be funded by company
Dilip Buildcon	212	30	241	19
NCC	412	-	402	-
PNC Infra	122	34	121	24
IRB Infra	111	85	121	91
KNR Constructions	40	40	100	28
Total	897	24	985	22

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key EPC segment financials ▶

Sales growth: We factor in 11% EPC sales CAGR (FY22F-24F) for companies in our coverage, which we believe is reasonable as average OB-to-TTM sales was healthy (2.9x in Dec 2021). This implies a lower 7% EPC sales CAGR over FY20-24F due to a 5% sales decline in FY21 on account of Covid-19 pandemic.

Figure 14: Key financials of EPC segment of construction companies

(Rs bn)	FY19	FY20	FY21	FY22F	FY23F	FY24F
Dilip Buildcon						
Sales	91	90	92	91	96	96
Sales growth yoy (%)	18	(2)	3	(1)	5	-
EBITDA margin ex bonus (%)	17.5	16.4	15.8	8.8	14.0	15.5
RoCE (%)	24.9	20.6	19.1	7.0	15.4	15.9
NWC/ Sales (%)	36.1	39.1	39.1	44.4	44.4	44.0
Interest rate (%)	14.7	15.5	15.0	16.0	16.0	16.0
NCC						
Sales	121	82	73	94	108	119
Sales growth yoy (%)	60	(32)	(12)	30	15	10
EBITDA margin ex bonus (%)	11.8	12.5	11.8	10.8	11.2	11.2
RoCE (%)	16.9	22.2	13.3	10.3	11.7	13.2
NWC/ Sales (%)	47.9	38.5	62.1	73.0	60.4	56.2
Interest rate (%)	15.6	14.5	15.4	14.3	14.0	14.0
PNC Infra						
Sales	31	48	49	59	66	74
Sales growth yoy (%)	71	55	3	20	12	12
EBITDA margin ex bonus (%)	14.1	13.7	13.7	13.7	13.7	13.7
RoCE (%)	30.4	41.4	42.2	41.3	41.8	47.8
NWC/ Sales (%)	19.5	14.1	14.3	16.6	17.9	16.1
Interest rate (%)	15.1	16.7	11.9	11.0	11.0	11.0
IRB Infra						
Sales	46	51	37	41	52	58
Sales growth yoy (%)	19	11	(27)	10	28	10
EBITDA margin ex bonus (%)	21.3	25.9	24.2	28.0	25.0	25.0
KNR Constructions						
Sales	21	22	27	32	37	43
Sales growth yoy (%)	11	5	20	20	15	15
EBITDA margin ex bonus (%)	20.0	21.7	19.8	19.5	19.5	19.5
RoCE (%)	38.9	26.9	25.2	29.7	32.5	32.6
NWC/ Sales (%)	12.8	19.2	22.9	24.8	25.2	25.6
Interest rate (%)	10.4	13.9	19.6	18.0	18.0	18.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Blended EBITDA margin for companies in our coverage declined from 17% in FY20 to 13.9% in FY22F, mainly due to the sharp decline in DBL's margin. We expect DBL's margin to rise to 15.5% in FY24F and thus, we believe the companies' blended margin will rise to 15.7% in FY24F.

Impact of a re-rating in EV/EBITDA multiple and/ or sharp EPC sales growth ►

Among the companies in our coverage, DBL and NCC have the highest target EPC segment EV as a proportion of overall Mar 2023F target equity valuation. Thus, a re-rating of EV/ EBITDA multiple and/or a sharp EPC sales growth of DBL and NCC can have the highest positive impact on our Mar 2023F target equity valuations of DBL and NCC.

Figure 15: EPC segment's target EV as a proportion of our target equity valuation

	FY24F EV/ EBITDA target multiple (x)	EPC segment target EV (Rs bn)	EPC Target EV/ target equity valuation %
Dilip Buildcon	5.0	74	127
NCC	5.5	73	150
PNC Infra	6.0	61	75
IRB Infra	4.0	57	32

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Leverage, promoter holding, and pledged holdings are at reasonable levels ►

Based on current OBs and expected timelines of BOT/HAM projects in the portfolio of companies under our coverage, we expect net debt/EBITDA to be within a reasonable range over FY23F-24F.

Among the companies in our coverage, consolidated net debt/market capitalization is high for DBL. Thus, we believe an expansion in the EV of DBL can have a substantial impact on its share price. On the other hand, PNC, IRB

Infra and KNR have lower consolidated net debt/market capitalization and an expansion in EV will have a relatively lower impact on their share price.

The latest promoter holding is greater than 50% for all companies in our coverage barring NCC (20%) and IRB Infra (34%). Pledged shares/promoter shares are at reasonable levels.

Figure 16: Consolidated net debt / market capitalization and consolidated net debt/ EBITDA

(x)	Consol Net Debt (Mar 22F)/ Market Capitalisation *	Consol Net Debt/ EBITDA	
		FY23F	FY24F
Dilip Buildcon	2.4	4.6	4.0
NCC	0.7	2.1	2.0
PNC Infra	0.4	1.6	1.7
IRB Infra	0.3	1.4	1.2
KNR Constructions	0.2	1.4	1.2

* Net Debt: Debt less cash less investments

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BOMBAY STOCK EXCHANGE (BSE)

Figure 17: Promoter holding and pledged shares as a percentage of promoter shares as at end-Dec 2021

	Promoter holding %	Pledged shares / promoter shares %
Dilip Buildcon	70	25
NCC	20	19
PNC Infra	56	-
IRB Infra	34	49
KNR Constructions	51	-

SOURCES: COMPANY REPORTS, BOMBAY STOCK EXCHANGE

Current FY23F EV/EBITDA of EPC segment is at a discount to historical levels, except for KNR Constructions ►

DBL, PNC and NCC are trading at an average 25%/36% discount to their five-year/ Mar 17-19 average EV/EBITDA, respectively. We believe strong EPC sales growth in FY23F-24F can re-rate the valuation multiples close to historical levels. KNR Constructions is trading at a sharp 47%/38% premium to its five-year/ Mar 17-19 average EV/EBITDA, respectively.

Figure 18: Valuations of main third-party construction companies

	EV/ EBITDA (x) for EPC segment			Premium (%) of current FY23F multiple vs.	
	5 yr average	Mar 17-19	Current FY23F	5 yr average	Mar 17-19
Dilip Buildcon	6.6	7.6	3.9	(41)	(49)
NCC	6.5	6.7	4.7	(28)	(30)
PNC Infra	6.1	8.2	5.7	(7)	(30)
KNR Constructions	6.4	6.8	9.4	47	38
Average	6.4	7.3	5.9	(7)	(19)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Infrastructure Investment Trust (InvIT): Reduces risk and increases returns for investors ►

While units of an InvIT are not debt instruments, risks are lower than in the equity of a road developer.

InvITs mitigate risks for investors:

- They reduce risk of capex overruns and base traffic estimation. An InvIT is not allowed to invest more than 10% of its asset value in projects under construction. 80% of its asset value has to be in completed projects.
- External debt must be less than 70% of asset value. If the above two conditions are breached due to share price movements, the InvIT has six months (a year with unit-holder approval) to meet the above two conditions.
- At least 90% of the special purpose vehicle's (SPV's) net distributable cash flow (NDCF) must be distributed to the InvIT and at least 90% of the InvIT's NDCF must be distributed to unit-holders.
- Control over acquisition/divestment. The decision to acquire/divest the asset is subject to a vote by the owners of the InvIT, in which the promoter/sponsor is not allowed to participate, and a majority vote is required to proceed with the acquisition/divestment.
- InvIT's sponsor must have a minimum of 15% shareholding for three years after it is listed.

InvIT maximizes returns for investors: Returns to unit-holders include interest on subordinated debt, principal repayment of subordinated debt and dividends.

- Zero taxes on a) dividend distribution by the SPV to the trust and by the trust to the unit-holder, and b) subordinated debt repayment.

- Domestic/foreign investors are charged withholding tax of 10%/5%, respectively, on interest income.

For InvIT, yield is a misnomer and the key metric to monitor is IRR:

- Yield in financial instruments means interest with the implicit assumption of principal repayment at the end of the tenure. InvIT payout includes interest and principal repayment. InvIT's assets have a finite blended life span of 10-15 years.

The yield in initial years could be high for an InvIT with a high proportion of mature assets approaching the end of their concession period.

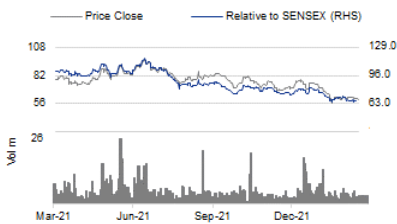
India

ADD (previously HOLD)

Consensus ratings*: Buy 19 Hold 1 Sell 0	
Current price:	Rs59
Target price:	Rs80
Previous target:	Rs95
Up/downside:	35.6%
InCred Research / Consensus:	-28.5%
Reuters:	NCCL.NS
Bloomberg:	NJCC IN
Market cap:	US\$471m
	Rs35,798m
Average daily turnover:	US\$4.1m
	Rs311.8m
Current shares o/s:	609.9m
Free float:	80.3%
*Source: Bloomberg	

Key changes in this note

- Reduce FY22F EBITDA by 8%.
- Increase FY23F EBITDA by 3%.
- Roll forward TP to Mar 2023F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.8)	(16.6)	(25.6)
Relative (%)	(8.5)	(16.8)	(35.6)

Major shareholders	% held
Promoter and Promoter group	19.7
Rakesh Jhunjunwala and family	12.8
IDFC Sterling Value Fund	3.4

Analyst(s)



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NCC Ltd

Highest order book-to-sales versus peers

- After orders worth Rs91bn in 9MFY22, order book-to-sales is at 4.3x. This, in tandem with beginning of execution of Rs99bn Jal Jeevan project, augurs well.
- Elevated working capital level has depleted RoCE during FY21-1HFY22.
- Cut target price to Rs80 from Rs95; upgrade rating to Add from Hold. We value EPC business at 5.5x FY24F EV/EBITDA, 15% discount to its 5-year median.

After orders worth Rs91bn in 9MFY22, OB/sales ratio is at 4.3x

NCC's OB was just Rs266bn in Mar 2020. After orders worth Rs186bn in FY21 and Rs91bn of orders in 9MFY22, OB stands at Rs402bn. Execution has started (Rs8.5bn in 3QFY22) in respect of Rs99bn 'Jal Jeevan Mission' order from Uttar Pradesh government. NCC expects ~Rs40bn revenue from this project in FY23F. NCC expects Rs98-100bn sales in FY22F (vs. Rs68bn in 9MFY22) and 15-20% yoy sales growth in FY23F. We believe this is achievable, as this would imply execution of ~25% of the OB in FY23F. EBITDA margin in 9MFY22 (10.7%) was lower than that in FY21 (11.8%) due to 1) salary hike in Jul 2021, and 2) increase in raw material prices. NCC mentioned that it stands covered against raw material price escalation in ~70% of its contracts, and the rest are small projects of short duration. NCC expects EBITDA margin of 11.2-11.5% in FY23F.

Elevated working capital level erodes RoCE

Standalone RoCE declined from 22.2% (FY19) to 10.3% (FY21) as EBITDA declined 40% over FY19-21 while assets rose 5% to Rs68bn over the same period (excluding cash, investments, and loans to group companies). NWC/sales stood elevated in FY21-1HFY22. As a result, we factor in just 13.5% RoCE in FY24F. Consolidated RoE in FY21 was low (5.2%) due to: a) EPC EBITDA decline. b) 5% RoCE of non-core assets in FY21 (13% of consolidated balance sheet). It is encouraging that the proportion of non-core assets in consolidated balance sheet reduced to 13% in FY21 from 39% in FY17. c) High interest cost of 14%. Net debt/ EBITDA in FY22F is expected to be comfortable (2.6x).

Cut target price to Rs80 from Rs95; upgrade stock to Add

We forecast EPC sales CAGR of 10% over FY20-24F (vs. 4% CAGR over FY18-20), considering 4.3x OB/sales ratio and commencement of execution of Rs99bn Jal Jeevan project. We believe NCC trades at an attractive valuation (standalone 4.8x EV/EBITDA FY23F, vs. five-year median forward EV/EBITDA of 6.5x). We reduce/increase our FY22F/23F EBITDA by 8%/3%, respectively. We roll forward our target price on NCC to Mar 2023F and upgrade its rating to Add (from Hold earlier), valuing the EPC business at 5.5x FY24F EV/EBITDA, at a 15% discount to its five-year median. Downside risks: a) delay and/or lower receipt of funds in arbitration cases with Sembcorp and Taqa than our estimate (Rs5bn), and b) slow project execution.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	89,011	79,494	96,944	110,955	121,698
Operating EBITDA (Rsm)	10,873	9,191	10,817	12,763	13,966
Net Profit (Rsm)	3,365	2,683	3,810	4,969	5,797
Core EPS (Rs)	6.4	4.6	6.2	8.1	9.5
Core EPS Growth	(44.2%)	(27.8%)	35.6%	30.4%	16.6%
FD Core P/E (x)	10.56	13.34	9.40	7.20	6.18
DPS (Rs)	0.2	0.8	0.3	0.4	0.4
Dividend Yield	0.41%	1.64%	0.53%	0.72%	0.83%
EV/EBITDA (x)	5.99	7.00	6.16	5.17	4.80
P/FCFE (x)	11.54	76.00	(17.92)	35.30	(62.72)
Net Gearing	61.1%	54.7%	55.3%	50.2%	47.6%
P/BV (x)	0.73	0.69	0.65	0.60	0.55
ROE	8.1%	5.6%	7.1%	8.6%	9.2%
% Change In Core EPS Estimates			(5.42%)	15.11%	
InCred Research/Consensus EPS (x)			0.00	0.00	0.00

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Highest order book-to-sales among peers

After orders worth Rs91bn in 9MFY22, OB/sales ratio is at 4.3x ▶

NCC's OB was just Rs266bn in Mar 2020. After Rs186bn of orders in FY21 and Rs91bn of orders in 9MFY22, OB stood at Rs402bn. Execution has started (Rs8.5bn in 3QFY22) for Rs99bn 'Jal Jeevan Mission' project from Uttar Pradesh government. NCC expects ~Rs40bn revenue from this project in FY23F. NCC expects Rs98-100bn sales in FY22F (vs. Rs68bn in 9MFY22) and 15-20% yoy sales growth in FY23F. We believe this is achievable as this implies ~25% execution of the OB in FY23F.

9MFY22 standalone sales/EBITDA were Rs68bn/Rs7.3bn, respectively. EBITDA margin (10.7%) was lower than that in FY21 (11.8%) due to 1) salary hike in Jul 2021, and 2) increase in raw material prices. NCC mentioned that it stands covered against raw material price escalation in ~70% of its contracts, and the rest are small projects of short duration. NCC expects EBITDA margin of 11.2-11.5% in FY23F.

Figure 19: Order book and OB/sales

(Rs bn)	FY19	FY20	FY21	9MFY22	FY22F	FY23F	FY24F
Closing Order book	408	265	379	402	406	408	340
Order flow	211	(60)	189	91	121	111	51
Sales	121	82	73	68	94	108	119
OB/ TTM Sales (x)	3.4	3.2	5.2	4.3	4.3	3.8	2.9
% of OB from buildings	39	50	56	61			
% of OB from Water & environment	23	18	19	20			
% of OB from Roads	21	10	5	3			
% of OB from Others	17	23	20	16			
EBITDA margin %	11.8	12.5	11.8	10.7	10.8	11.2	11.2

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Elevated working capital level erodes RoCE ▶

Standalone RoCE declined from 22.2% (FY19) to 10.3% (FY21) as EBITDA fell 40% over FY19-21 while assets rose 5% to Rs68bn over the same period (excluding cash, investments, and loans to group companies). NWC/sales stood elevated in FY21-1HFY22. As a result, we factor in just 13.5% RoCE in FY24F.

Consolidated RoE in FY21 was low at 5.2% due to: a) EPC EBITDA decline. b) 5% RoCE of non-core assets in FY21 (13% of consolidated balance sheet). It is encouraging that the proportion of non-core assets in consolidated balance sheet reduced to 13% in FY21 from 39% in FY17. c) High interest cost of 14%.

Figure 20: NCC's key standalone financial ratios

(%)	FY19	FY20	FY21	FY22F	FY23F	FY24F
RoCE	22.2	13.3	10.3	11.7	13.2	13.5
EBIT margin	10.5	10.4	9.4	8.8	9.2	9.2
NFA/ Sales	9.1	16.0	17.8	14.8	13.8	12.8
NWC / Sales	38.5	62.1	73.0	60.4	56.2	55.3
Interest rate	14.5	15.4	14.3	14.3	14.3	14.3
EV/ EBITDA - EPC (x)			-	5.7	4.8	4.4

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 21: NCC's key consolidated financial

(%)	FY19	FY20	FY21	FY22F	FY23F	FY24F
RoCE	17.3	11.8	9.5	10.4	11.7	12.0
RoE	12.6	6.9	5.2	6.9	8.3	8.8
Interest rate	12.8	14.0	13.6	13.2	13.2	13.2
Net Debt/ EBITDA (x)	2.2	2.5	2.8	2.6	2.1	2.0
EBIT/ Interest (x)	2.7	1.6	1.5	1.9	2.2	2.5
Net Debt/ Equity (x)	0.8	0.6	0.5	0.6	0.5	0.5
EV/ EBITDA (x)		5.8	6.9	5.8	4.9	4.5
P/E (x)				9.4	7.2	6.2
P/BV (x)				0.7	0.6	0.5

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Update on arbitration ▶

a) NCC stated that Hyderabad High Court has approved the resolution of arbitration with Sembcorp, and it expects to receive arbitration award by Apr 2022F. NCC is hopeful of recovering Rs6-6.5bn. b) In the arbitration with Taqa, NCC is making efforts to reach an out-of-court settlement, but discussions slowed

due to the Covid-19 pandemic. We factor in a net receipt of Rs5bn (Rs8/share) for NCC in our target price or TP.

Roll forward TP to Mar 2023F; upgrade to Add (from Hold earlier) with a lower TP of Rs80 (Rs95 earlier) ▶

We forecast EPC sales CAGR of 10% over FY20-24F (vs. 4% CAGR over FY18-20), considering 4.3x OB/ sales and commencement of execution of Rs99bn Jal Jeevan project. We believe NCC trades at an attractive valuation (standalone 4.8x EV/EBITDA FY23F, vs. five-year median forward EV/EBITDA of 6.5x). We reduce/increase our FY22F/23F EBITDA by 8%/3%, respectively. We roll forward our TP on NCC to Mar 2023F and upgrade the rating on it to Add (from Hold earlier), valuing the EPC business at 5.5x FY24F EV/EBITDA, at a 15% discount to its five-year median.

Downside risks: a) Delay and/or lower receipt of funds in arbitration cases with Sembcorp and Taqa compared to our estimate (Rs5bn), and b) slow project execution.

Figure 22: Earnings revision

(Rs m)	FY22F		FY23F		FY24F
	Old	New	Old	New	
Sales	97,469	96,944	1,02,222	1,10,955	1,21,698
% change		-1		9	
EBITDA	11,811	10,817	12,372	12,763	13,966
% change		-8		3	
PAT	4,028	3,810	4,317	4,969	5,797
% change		-5		15	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 23: Median EV/EBITDA of 6.5x over last five years; stock currently trades at 4.8x FY23F EV/EBITDA

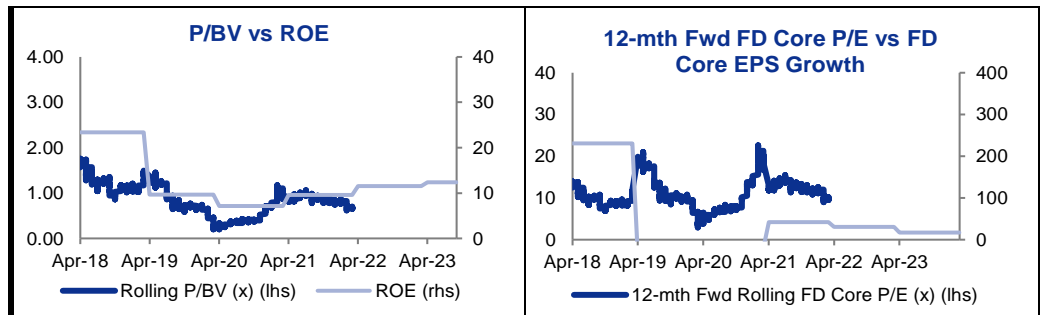


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 24: SOTP-based target price

	Rs bn	Rs/ share	Comments
EV of EPC business	73	120	Valued at 5.5x FY24F EV/EBITDA
Recovery via arbitration	5	8	
Less: Net Debt FY23F	(32)	(52)	
Total	49	80	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	89,011	79,494	96,944	110,955	121,698
Gross Profit	18,828	15,544	17,450	19,972	21,906
Operating EBITDA	10,873	9,191	10,817	12,763	13,966
Depreciation And Amortisation	(1,992)	(1,813)	(2,100)	(2,500)	(2,600)
Operating EBIT	8,880	7,378	8,717	10,263	11,366
Financial Income/(Expense)	(5,539)	(4,799)	(4,617)	(4,617)	(4,617)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,130	1,159	1,159	1,159	1,159
Profit Before Tax (pre-EI)	4,472	3,738	5,259	6,805	7,908
Exceptional Items					
Pre-tax Profit	4,472	3,738	5,259	6,805	7,908
Taxation	(728)	(795)	(1,315)	(1,701)	(1,977)
Exceptional Income - post-tax	(496)	(126)			
Profit After Tax	3,247	2,818	3,944	5,104	5,931
Minority Interests	118	(134)	(134)	(134)	(134)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,365	2,683	3,810	4,969	5,797
Recurring Net Profit	3,862	2,809	3,810	4,969	5,797
Fully Diluted Recurring Net Profit	3,862	2,809	3,810	4,969	5,797

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	10,873	9,191	10,817	12,763	13,966
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,141	(2,634)	(6,042)	(3,090)	(6,102)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(5,539)	(4,799)	(4,617)	(4,617)	(4,617)
Tax Paid	(728)	(795)	(1,315)	(1,701)	(1,977)
Cashflow From Operations	8,747	963	(1,157)	3,355	1,270
Capex		(1,172)	(2,000)	(3,500)	(3,000)
Disposals Of FAs/subsidiaries	1,711				
Acq. Of Subsidiaries/investments	273	86			
Other Investing Cashflow	634	1,033	1,159	1,159	1,159
Cash Flow From Investing	2,617	(53)	(841)	(2,341)	(1,841)
Debt Raised/(repaid)	(8,286)	(439)			
Proceeds From Issue Of Shares	(108)	551			
Shares Repurchased					
Dividends Paid	(146)	(585)	(188)	(257)	(296)
Preferred Dividends					
Other Financing Cashflow	(2,553)	722	(135)	(134)	(134)
Cash Flow From Financing	(11,093)	248	(323)	(391)	(430)
Total Cash Generated	270	1,158	(2,321)	623	(1,001)
Free Cashflow To Equity	3,077	471	(1,997)	1,014	(571)
Free Cashflow To Firm	16,902	5,709	2,619	5,631	4,046

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	3,887	5,046	2,725	3,348	2,347
Total Debtors	29,380	28,792	28,558	32,482	35,489
Inventories	13,913	12,222	12,887	13,445	14,090
Total Other Current Assets	68,592	68,123	75,384	72,063	78,809
Total Current Assets	115,773	114,183	119,554	121,337	130,735
Fixed Assets	11,595	11,473	11,373	12,373	12,773
Total Investments	7,172	7,312	7,312	7,312	7,312
Intangible Assets					
Total Other Non-Current Assets	3,579	2,432	2,432	2,432	2,432
Total Non-current Assets	22,346	21,217	21,117	22,117	22,517
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	51,111	45,729	47,380	45,451	49,748
Total Current Liabilities	51,111	45,729	47,380	45,451	49,748
Total Long-term Debt	35,415	34,975	34,975	34,975	34,975
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	35,415	34,975	34,975	34,975	34,975
Total Provisions					
Total Liabilities	86,526	80,705	82,355	80,426	84,723
Shareholders Equity	49,065	51,713	55,335	60,047	65,547
Minority Interests	2,528	2,981	2,981	2,981	2,981
Total Equity	51,593	54,694	58,316	63,028	68,528

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	(31.0%)	(10.7%)	22.0%	14.5%	9.7%
Operating EBITDA Growth	(32.0%)	(15.5%)	17.7%	18.0%	9.4%
Operating EBITDA Margin	12.2%	11.6%	11.2%	11.5%	11.5%
Net Cash Per Share (Rs)	(51.70)	(49.08)	(52.88)	(51.86)	(53.50)
BVPS (Rs)	80.45	84.80	90.73	98.46	107.48
Gross Interest Cover	1.60	1.54	1.89	2.22	2.46
Effective Tax Rate	16.3%	21.3%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	3.2%	16.2%	3.7%	3.9%	3.8%
Accounts Receivables Days	132.68	133.55	107.96	100.40	101.93
Inventory Days	73.24	74.58	57.64	52.82	50.36
Accounts Payables Days					
ROIC (%)	10.9%	9.7%	11.3%	12.3%	13.0%
ROCE (%)	9.9%	8.4%	9.5%	10.7%	11.3%
Return On Average Assets	7.0%	6.2%	7.2%	8.0%	8.4%

Key Drivers					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Outstanding Orderbook (Rs m)	265,710	379,110	405,698	408,273	340,106
Orderbook Replenishment (Rs m)	(59,475)	190,122	120,000	110,000	50,000

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD (previously HOLD)

Consensus ratings*: Buy 7 Hold 4 Sell 0

Current price:	Rs251
Target price:	Rs293
Previous target:	Rs293
Up/downside:	16.7%
InCred Research / Consensus:	-8.8%
Reuters:	IRBI.NS
Bloomberg:	IRB IN
Market cap:	US\$1,996m
	Rs151,670m
Average daily turnover:	US\$14.0m
	Rs1062.3m
Current shares o/s:	351.5m
Free float:	66.0%

*Source: Bloomberg

Key changes in this note

- Upgrade the stock to Add (from Hold earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	16.4	12.6	144.4
Relative (%)	12.9	12.4	111.5

Major shareholders	% held
Promoter and Promoter Group	34.0
Cintra Investments	24.9
Bricklayers Investment	16.9

Analyst(s)

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IRB Infrastructure Developers Ltd

Fund-raising provides growth capital

- Fund-raising has provided growth capital, but at 72% equity dilution.
- Recent project win provides EPC revenue visibility.
- We maintain our estimates and TP (Rs293) but upgrade the stock to Add (from Hold earlier) post 20% decline in CMP since 12 Feb 2022.

Fund-raising has provided growth capital, but at 72% equity dilution

IRB Infra announced that Government of Singapore Investment Corporation (GIC) would invest Rs44bn in nine IRB's assets for 49% equity. IRB Infra transferred these assets to IRB Infrastructure Fund (IRBIF: private infrastructure investment trust) in Feb 2020. GIC paid Rs7.5bn to IRB Infra (Feb 2020), infused Rs30bn/ Rs2.5bn in IRBIF in Feb 2020/ Nov 2020, respectively, and will infuse Rs5bn in IRBIF over next two years. Further, IRB Infra completed equity-raising in Jan 2022 (deal announced in 2QFY22) of Rs53.5bn (@ Rs212/share) for a 41.8% stake in the company via preferential allotments to (a) Cintra INR Investment BV (subsidiary of Ferrovial) worth Rs31.8bn (24.9% stake), and (b) Bricklayers Inv. Pte (affiliate of GIC) worth Rs21.7bn (16.9% stake). Promoter holding in IRB Infra fell from 58.5% to 34% after the deal. The funds raised have been used to reduce debt by Rs33bn in Jan 2022. Net debt/EBITDA is likely to reduce from 4.6x (FY21) to 1.6x (FY22F). We believe the capital raised can re-rate IRB Infra's EPC vertical but would lead to a 72% equity dilution.

Recent project win provides EPC revenue visibility

Net debt/ EBITDA is likely to fall from 4.6x (FY21) to 1.4x (FY23F) due to the Rs53.5bn equity infusion in FY22F. Gross fixed assets declined by Rs140bn in FY20 as IRBIF was not consolidated on IRB Infra's balance sheet for Mar 2020. Over FY22F-24F, we estimate capex of Rs60bn (mainly recently-awarded Ganga Expressway project). EPC order book (OB) was just Rs66bn in 2QFY22 (1.5x TTM sales). While IRB has O&M orders worth Rs65bn, this will not be able to drive EPC sales as IRB expects revenue of just Rs4-5bn p.a. from them. However, in 3QFY22, EPC OB rose sharply to Rs121bn (2.9x TTM sales) as IRB Infra bagged a BOT project (Ganga Expressway group-1 worth Rs55.6bn).

Maintain our estimates and TP of Rs293; upgrade to Add from Hold

We forecast 3% EPC sales CAGR over FY20-24F and value EPC segment at 4x FY24F EV/EBITDA, which we believe is a fair multiple as (a) IRB Infra's order book comprises entirely in-house projects, and (b) its EPC EBITDA margin is ~25% vs. third-party EPC players' EBITDA margin of ~12%. We value IRBIF projects at 1x P/BV, IRB Infra's stake in IRB InvIT at current market price and IRB Infra's BOT projects using DCF (WACC of 11%, traffic growth and tariff growth of 5% p.a. each) methodology. We maintain our estimates and TP and upgrade the stock to Add (from Hold earlier) after the 20% decline in CMP since 12 Feb 2022. Cost escalation of under-construction projects is a key downside risk.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	68,522	52,986	60,232	76,772	86,097
Operating EBITDA (Rsm)	29,714	25,127	26,686	35,624	39,925
Net Profit (Rsm)	3,728	1,171	4,508	12,085	19,474
Core EPS (Rs)	14.5	7.3	9.4	20.0	32.2
Core EPS Growth	(35.7%)	(49.8%)	29.4%	112.0%	61.1%
FD Core P/E (x)	17.28	34.44	26.62	12.55	7.79
DPS (Rs)	5.0	0.0	0.0	0.0	0.0
Dividend Yield	2.24%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	3.90	8.07	6.07	5.64	4.95
P/FCFE (x)	2.08	(35.72)	(1.89)	9.82	5.74
Net Gearing	103.4%	235.4%	70.7%	69.8%	59.2%
P/BV (x)	1.32	1.28	1.19	1.09	0.96
ROE	7.9%	3.8%	4.6%	9.1%	13.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.51	1.95	1.98

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Fund-raising provides growth capital

Key features of IRB's deal with GIC announced in Aug 2019 ►

IRB Infra announced that Government of Singapore Investment Corporation (GIC) would invest Rs44bn in nine IRB's assets for 49% equity. IRB Infra transferred these assets to IRB Infrastructure Fund (IRBIF: private infrastructure investment trust) in Feb 2020. GIC paid Rs7.5bn to IRB Infra (Feb 2020), infused Rs30bn/ Rs2.5bn in IRBIF in Feb 2020/ Nov 2020, respectively, and will infuse Rs5bn in IRBIF over the next two years. The transaction EV is Rs225bn (~1.05x capex less grant), vs. our valuation of Rs200bn (~0.9x capex less grant).

All the projects are being tolled, despite two being under construction, as these are six-lane projects where tolling is allowed during construction. Of the nine projects, five are six-lane projects. IRB Infra expects tariffs for the six-lane projects to increase by 25-30% post completion of construction by CY21 (factored into our estimates). In 3QFY22, toll revenue grew 16% qoq/11% yoy. Chittorgarh received full COD, while Kishangarh and Hapur's CODs are expected in 4QFY22F when ~55% tariff revision is expected. Yedeshi, Agra and Udaipur are collecting toll at full rates.

Figure 25: Details of nine assets where GIC has a 49% equity stake

(Rs bn)	Scope of work	Construction status	Tolling Status	Project Cost	Grant	Completion of 6 laning
Kaithal- Rajasthan	4 Laning	Operational	Started Sep 17	22.9	2.3	na
Agra - Etawah	6 Laning	Operational	Started FY17	25.2	(0.8)	Nov 20
Udaipur-Gujarat	6 Laning	Operational	Started Sep 17	20.9	(1.6)	May 21
Gulabpur-Chittorgarh	6 Laning	Operational	Started Nov 17	20.9	(2.3)	Aug 21
Goa - Kundapur	4 Laning	Operational	Started Feb 20	28.4	5.4	na
Solapur - Yedeshi	4 Laning	Operational	Started Mar 18	14.9	1.9	na
Yedeshi - Aurangabad	4 Laning	Operational	Started Mar 19	33.8	5.6	na
Kishangarh - Gulabpura	6 Laning	Under construction	Started Feb 18	15.5	(1.9)	4QFY22
Hapur Moradabad	6 Laning	Under construction	Started May 19	34.0	-	4QFY22
Total				216.5	8.6	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Equity-raising announced in Oct 2021 provides growth capital, but at 72% equity dilution ►

IRB Infra completed equity raising in Jan 2022 (deal announced in 2QFY22) of Rs53.5bn (@ Rs212/ share) for a 41.8% stake in the company via preferential allotments to (a) Cintra INR Investment BV (subsidiary of Ferrovial) worth Rs31.8bn (24.9% stake), and (b) Bricklayers Inv. Pte (affiliate of GIC) worth Rs21.7bn (16.9% stake). Promoter holding reduced from 58.5% to 34% in IRB Infra after the deal, but the promoter retains management control. The funds raised have been used to reduce debt by Rs33bn in Jan 2022. Net debt/EBITDA is likely to reduce from 4.6x (FY21) to 1.6x (FY22F). We believe the capital raised can re-rate IRB Infra's EPC vertical, but the transaction would lead to a 72% equity dilution.

Key changes in IRB's consolidated balance sheet ►

Net debt/equity is likely to reduce from 2.4x (FY21) to 0.7x (FY23F) and net debt/EBITDA is likely to fall from 4.6x (FY21) to 1.4x (FY23F) due to the Rs53.5bn equity infusion in FY22F.

- **Gross fixed assets** declined by Rs140bn in FY20 as IRBIF was not consolidated on IRB's balance sheet for Mar 2020. Over FY20-22F, we estimate capex of Rs88bn for IRB (Mumbai Pune – Rs74bn and Vadodara Kim – Rs14bn). Over FY22-24F, we estimate capex of Rs60bn (mainly recently awarded Ganga Expressway project).

Figure 26: IRB Infra's consolidated balance sheet

(Rs bn)	FY19	FY20	FY21	FY22F	FY23F	FY24F
Equity	63	67	69	127	138	153
Net Debt	150	69	162	90	98	99
Other Liabilities	0	0	0	0	0	0
Source of Funds	214	136	231	217	236	253
Gross fixed assets ex. Premium payable	222	82	163	171	203	232
Net fixed assets ex. Premium payable	213	70	144	145	167	185
Investments	6	41	48	48	48	48
NWC ex cash	(5)	(10)	6	(10)	(12)	(13)
Receivables from IRBIF	-	35	33	33	33	33
Application of funds	214	136	231	217	236	253
Net Debt/ EBITDA (x)	4.9	0.9	4.6	1.6	1.4	1.3
EBIT/ Interest (x)	2.0	1.4	1.0	1.2	1.8	2.0
Net Debt/ Equity (x)	2.4	1.0	2.4	0.7	0.7	0.6

SOURCES: INCRED RESEARCH, COMPANY REPORTS

- **Investments** increased by Rs35bn over FY20 as IRB Infra now has units worth Rs39bn (Mar 2020) in IRBIF, while in Mar 2019 IRBIF's assets were 100% subsidiaries of IRB Infra and not a part of investments. IRB Infra has received another Rs7.5bn from GIC. Note: IRB Infra's equity investments in the nine assets (Mar 2019) stood at Rs44bn.
- **Receivables** from IRBIF were Rs35bn due to IRBIF project claims made to National Highways Authority of India (NHAI). IRB Infra has confirmed that when IRBIF receives the money, it will be transferred to IRB. We await clarity on the quantum and timeline for receipt of payments and value the claims at 50% of the claim amount. Note: IRB Infra has received a favourable verdict in Goa tollway case amounting to Rs3.7bn and has received Rs2.5bn till date.

Figure 27: Net fixed assets, net debt and equity investments (FY19) in nine BOT assets now transferred to IRBIF

(Rs bn)	FY19		
	Net Block	Net Debt	Equity Investments
Kaithal Rajasthan	20	14	5
Agra Etawah	22	15	8
Gulabpura Chittorgarh	11	8	2
Udaipur Gujarat	15	10	3
Solapur Yedeshi	14	9	5
Yedeshi Aurangabad	33	19	11
Kishangarh Gulabpura	7	5	2
Hapur Moradabad	0	0	0
Goa Kundupur	23	16	8
Total	145	95	44

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Income statement – EPC segment to be boosted by new project award; BOT segment to be driven by MPTOT ►

IRBIF projects were consolidated on IRB Infra's income statement till Feb 2020, after which they will not be consolidated and will be treated as associates.

Figure 28: IRB Infra's consolidated income statement

(Rs bn)	FY20	FY21	FY22F	FY23F	FY24F
Sales	68.5	53.0	60.2	76.8	86.1
EPC sales	51.1	37.2	40.8	52.2	57.7
Growth %	11	(27)	10	28	10
BOT sales	17.4	15.7	19.4	24.6	28.4
Growth %	(17)	(10)	23	27	16
EBITDA	29.7	25.1	26.7	35.6	39.9
Growth %	1	(15)	6	33	12
Depreciation	4.7	5.8	7.6	9.5	11.2
Interest	15.6	15.5	15.4	14.6	14.4
PAT	3.7	1.2	4.5	10.7	15.3

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BOT segment: We expect most of BOT revenue in FY21-24F to come from the Mumbai Pune Toll Operate Transfer project (MPTOT).

- IRB Infra took over MPTOT in Mar 2020 and paid the Maharashtra State Road Development Corporation (MSRDC) Rs65bn in Jun 2020. IRB Infra will pay

another Rs20bn over FY22F-24F. The concession period is 10 years and two months. We expect the project IRR to be ~12% and equity IRR to be ~16%.

- Daily toll collection in 3QFY22 was ~Rs38m. As per regulations, for FY20, in case of daily toll collection being greater than Rs31.5m, MSRDC would get 90% of the excess over Rs31.5m. This number (toll beyond which MSRDC will get 90% of the excess collection) would keep growing, considering tariff hikes, as per regulations
- IRB Infra would need to have at least a 51% equity stake in the project till payment to MSRDC is complete. Tariffs have already been raised by 17.4% in FY21, and a 17.4% hike is expected in FY24F, and a 4.5% hike in FY27F and FY30F by the management of IRB Infra.

Figure 29: Breakdown of BOT segment's sales

(Rs bn)	FY20	FY21	FY22F	FY23F	FY24F
Sales from Assets of IRBIF - consolidated in IRB till Feb 20	7.5				
Other projects including MPTOT	9.9	15.7	19.4	24.6	28.4
MPTOT		9.7	12.9	13.5	16.7
Total BOT Sales	17.4	15.7	19.4	24.6	28.4

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 30: EPC segment's financials

(Rs bn)	FY20	FY21	FY22F	FY23F	FY24F
EPC order book	47	77	112	119	122
EPC Order flow	(12)	67	75	60	60
EPC Sales	51	37	41	52	58
yoy growth %		(27)	10	28	10
EPC OB/ Sales (x)	0.9	2.1	2.7	2.3	2.1
EPC EBITDA margin %	25.9	24.2	28.0	25.0	25.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

EPC segment: EPC order book (OB) was just Rs66bn in 2QFY22 (1.5x TTM sales). While IRB Infra has O&M orders worth Rs65bn, this will not be able to drive EPC sales as IRB Infra expects revenue of just Rs4-5bn p.a. from them. However, in 3QFY22, EPC OB rose sharply to Rs121bn (2.9x TTM sales) as IRB Infra bagged a BOT project (Ganga Expressway group-1 worth Rs55.6bn).

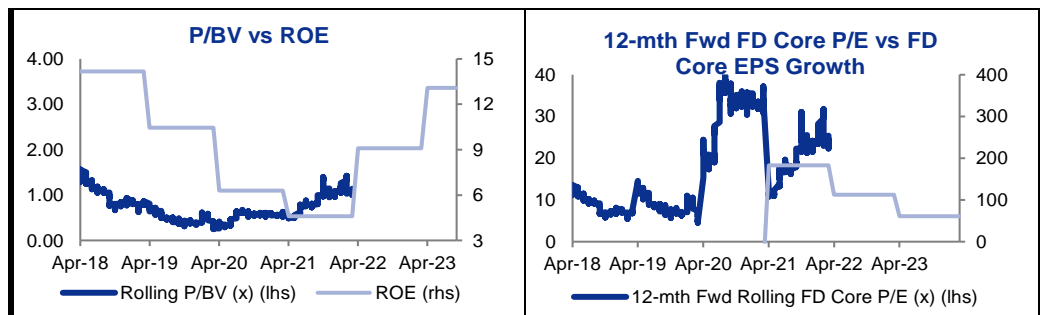
Maintain our estimates and TP (Rs293); upgrade to Add from Hold ▶

We forecast 3% EPC sales CAGR over FY20-24F and value EPC segment at 4x FY24F EV/EBITDA, which we believe is a fair multiple as (a) IRB Infra's order book comprises entirely in-house projects, and (b) its EPC EBITDA margin is ~25% vs. third-party EPC players' EBITDA margin of ~12%. We value IRBIF projects at 1x P/BV, IRB Infra's stake in IRB InvIT at current market price and IRB Infra's BOT projects using DCF (WACC of 11%, traffic growth and tariff growth of 5% p.a. each) methodology. We maintain our estimates and TP and upgrade the stock to Add (from Hold earlier) after the 20% decline in CMP since 12 Feb 2022. Cost escalation of under-construction projects is a key downside risk.

Figure 31: DCF-based target price

	(Rs bn)	(Rs/ share)	Comments
IRBIF Equity valuation (51% stake)	41	69	Implied valuation of 1x PBV
IRB BOT projects Equity value	28	46	DCF
IRB's stake in IRB InvIT (public InvIT)	6	10	Valued at current market price
EPC segment's EV	57	94	Valued at 4x EV/EBITDA FY24F
Claims from NHA1 filed by IRBIF	17	29	Valued at 50% of claim amount
Net Debt ex BOT	28	46	
Target valuation	177	293	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	68,522	52,986	60,232	76,772	86,097
Gross Profit	35,998	31,368	36,139	46,063	51,658
Operating EBITDA	29,714	25,127	26,686	35,624	39,925
Depreciation And Amortisation	(4,683)	(5,817)	(7,615)	(9,547)	(11,191)
Operating EBIT	25,031	19,310	19,071	26,077	28,734
Financial Income/(Expense)	(13,694)	(13,586)	(13,294)	(12,337)	(9,681)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	11,337	5,724	5,777	13,739	19,053
Exceptional Items	(3,066)	(3,107)			
Pre-tax Profit	8,271	2,616	5,777	13,739	19,053
Taxation	(4,544)	(1,445)	(940)	(1,865)	(86)
Exceptional Income - post-tax					
Profit After Tax	3,728	1,171	4,837	11,874	18,966
Minority Interests			(329)	211	508
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,728	1,171	4,508	12,085	19,474
Recurring Net Profit	5,109	2,563	4,508	12,085	19,474
Fully Diluted Recurring Net Profit	5,109	2,563	4,508	12,085	19,474

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	29,714	25,127	26,686	35,624	39,925
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,611	(16,192)	15,749	2,476	1,396
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(3,066)	(3,107)			
Other Operating Cashflow					
Net Interest (Paid)/Received	(13,694)	(13,586)	(13,294)	(12,337)	(9,681)
Tax Paid	(4,319)	(1,862)			
Cashflow From Operations	13,246	(9,622)	29,141	25,763	31,640
Capex	138,242	(80,329)	(8,803)	(31,322)	(28,924)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(35,005)	(6,531)			
Cash Flow From Investing	103,237	(86,859)	(8,803)	(31,322)	(28,924)
Debt Raised/(repaid)	(74,120)	94,010	(83,790)	21,000	23,734
Proceeds From Issue Of Shares			53,500		
Shares Repurchased					
Dividends Paid	(1,977)				
Preferred Dividends					
Other Financing Cashflow	(33,283)	3,154	(2,276)	(1,988)	(1,988)
Cash Flow From Financing	(109,380)	97,164	(32,566)	19,012	21,746
Total Cash Generated	7,103	683	(12,228)	13,453	24,462
Free Cashflow To Equity	42,363	(2,471)	(63,452)	15,441	26,450
Free Cashflow To Firm	132,127	(81,006)	35,765	9,066	17,124

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	22,707	23,390	12,169	25,956	52,827
Total Debtors	4,408	5,879	2,000	2,549	2,859
Inventories	3,314	3,217	3,657	4,661	5,227
Total Other Current Assets	11,571	20,553	11,255	14,346	16,088
Total Current Assets	41,999	53,039	29,080	47,511	77,001
Fixed Assets	69,776	144,287	145,476	167,250	184,983
Total Investments	41,459	47,989	47,989	47,989	47,989
Intangible Assets					
Total Other Non-Current Assets	34,688	32,957	32,957	32,957	32,957
Total Non-current Assets	145,922	225,234	226,422	248,196	265,929
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	7,440	7,146	8,000	10,197	11,435
Other Current Liabilities	21,815	16,274	18,431	23,355	26,130
Total Current Liabilities	29,255	23,420	26,431	33,552	37,566
Total Long-term Debt	91,811	185,821	102,031	123,031	146,765
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	91,811	185,821	102,031	123,031	146,765
Total Provisions	27	24	24	24	24
Total Liabilities	121,093	209,265	128,486	156,607	184,355
Shareholders Equity	66,829	69,008	127,015	139,101	158,575
Minority Interests					
Total Equity	66,829	69,008	127,015	139,101	158,575

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	2.2%	(22.7%)	13.7%	27.5%	12.1%
Operating EBITDA Growth	1.2%	(15.4%)	6.2%	33.5%	12.1%
Operating EBITDA Margin	43.4%	47.4%	44.3%	46.4%	46.4%
Net Cash Per Share (Rs)	(196.63)	(462.17)	(148.76)	(160.71)	(155.51)
BVPS (Rs)	190.15	196.35	210.27	230.28	262.52
Gross Interest Cover	1.60	1.25	1.24	1.78	1.99
Effective Tax Rate	54.9%	55.2%	16.3%	13.6%	0.5%
Net Dividend Payout Ratio	29.1%				
Accounts Receivables Days	14.76	35.43	23.87	10.81	11.46
Inventory Days	43.42	55.13	52.06	49.43	52.40
Accounts Payables Days	81.37	123.13	114.73	108.14	114.63
ROIC (%)	12.1%	20.4%	10.4%	15.4%	15.3%
ROCE (%)	13.9%	10.3%	8.8%	11.5%	11.8%
Return On Average Assets	9.4%	7.7%	6.8%	8.8%	9.0%

Key Drivers					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Outstanding Orderbook	47,279	77,488	111,659	119,439	121,782
Sales grth (%)	2.2%	(22.7%)	13.7%	27.5%	12.1%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD (previously **REDUCE**)

Consensus ratings*: Buy 23 Hold 1 Sell 0

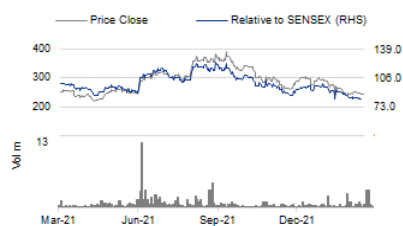
Current price:	Rs254
Target price:	Rs316 ▲
Previous target:	Rs264
Up/downside:	24.4%
InCred Research / Consensus:	-20.6%

Reuters:	PNCL.NS
Bloomberg:	PNCL IN
Market cap:	US\$857m
	Rs65,148m
Average daily turnover:	US\$1.8m
	Rs139.2m
Current shares o/s:	256.5m
Free float:	43.9%

*Source: Bloomberg

Key changes in this note

- Reduce FY22F EBITDA by 33%.
- Reduce FY23F EBITDA by 27%.
- Roll forward TP valuation to Mar 2023F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.0)	(2.6)	(0.1)
Relative (%)	(6.8)	(2.8)	(13.5)

Major shareholders	% held
Promoter and Promoter group	56.1
HDFC Small Cap Fund	8.7
ICICI Prudential	3.7

Analyst(s)

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PNC Infratech Ltd

Recent orders to drive execution in FY23F-24F

- Order book/sales ratio has risen to 3.2x post PNC Infratech's announcement of the company being the lowest bidder in six HAM projects
- Increase our TP to Rs316 from Rs264; upgrade to Add from Reduce. We have valued EPC business at 6x FY24F EV/EBITDA, similar to its five-year median.

OB/sales up at 3.2x as PNC declared lowest bidder in 6 HAM projects

Reported order book or OB in Dec 2021 was Rs121bn (2x Trailing Twelve Month (TTM) sales). However, three Jal Jeevan water supply projects worth Rs23bn were not included in 3QFY22 OB. As per PNC, these are likely to contribute Rs15bn to revenue in FY23F. Including these, OB rises to Rs144bn (2.4x TTM sales). Further, during Feb-Mar 2022, PNC was declared as the lowest bidder in six HAM projects in Uttar Pradesh by NHA with its total bid project cost at Rs69bn. Thus, we estimate PNC's OB/sales in Mar 2022F to touch 3.2x. Out of its portfolio of 11 HAM projects (excluding six where PNC is the lowest bidder and project award is awaited), five are operational and six are under construction. We believe PNC has to finance 33% of the OB as ~55% of Mar 2022F OB is expected to comprise HAM projects. Balance equity requirement for 12 HAM projects is Rs16.5bn, which be funded via internal accruals.

Consolidated RoCE is likely to decline in FY21-24F

Standalone RoCE was higher over FY20-21 (~41%) partly because of in-house projects (primarily HAM) which accounted for 70% of PNC's OB in FY20-21. We expect a similar standalone RoCE in FY22F-24F. Consolidated RoCE in FY20-21 was just 19%, despite high standalone RoCE (41%), as BOT assets (Rs51bn in Mar 2021) comprised 80% of the consolidated balance sheet. PNC's RoCE of BOT assets was lower than that of EPC segment. Further, of the BOT assets in Mar 2021, Rs26bn (40% of balance sheet) worth are under-construction HAM projects that are not generating revenue currently. Net debt / EBITDA was 2x in FY21 and we expect 5.3x net debt/ EBITDA in FY24F due to Rs37bn of under-construction HAM projects (24% of FY24F balance sheet).

Increase TP to Rs316 from Rs264; upgrade to Add from Reduce

We forecast EPC sales CAGR of 12% over FY20-24F (vs. 63% CAGR over FY18-20). We believe this is achievable, considering 3.2x OB/ sales (FY22F). PNC trades at an attractive valuation (standalone EV/EBITDA of 5.4x FY23F). We reduce our FY22F/23F EBITDA by 33%/27%, respectively. We roll forward our TP to Mar 2023F, valuing the EPC business at 6x FY24F EV/EBITDA, close to its five-year median (6.1x). We have valued PNC's under-construction assets at 1x FY23F capex and operational BOT assets using discounted cash flow or DCF (11.5% WACC for BOT – Toll, 10.5% WACC for BOT – Annuity) methodology. We upgrade our rating on PNC to Add (from Reduce earlier) with a revised TP of Rs316 (Rs264 earlier). Downside risk is delay/capex overrun in HAM projects.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	54,931	57,876	68,463	77,102	87,671
Operating EBITDA (Rsm)	12,177	14,179	14,529	16,775	19,987
Net Profit (Rsm)	5,499	4,969	4,796	4,197	4,966
Core EPS (Rs)	14.9	19.4	18.7	16.4	19.4
Core EPS Growth	8.9%	29.8%	(3.5%)	(12.5%)	18.3%
FD Core P/E (x)	17.02	13.11	13.58	15.52	13.12
DPS (Rs)	0.5	0.5	0.6	0.6	0.7
Dividend Yield	0.25%	0.25%	0.27%	0.30%	0.33%
EV/EBITDA (x)	7.43	6.62	6.36	9.58	8.52
P/FCFE (x)	13.28	(69.90)	(7.87)	(1,239.12)	31.66
Net Gearing	116.7%	112.8%	101.1%	265.0%	258.2%
P/BV (x)	2.55	2.13	1.85	1.66	1.48
ROE	16.7%	17.7%	14.6%	11.3%	12.0%
% Change In Core EPS Estimates			(17.04%)	(42.27%)	
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Recent orders to drive execution in FY23F-24F

Order book/sales has risen to 3.2x post PNC's announcement of being the lowest bidder in six HAM projects >

Reported OB in Dec 2021 was Rs121bn (2x Trailing Twelve Month or TTM sales). However, three Jal Jeevan water supply projects worth Rs23bn are not included in 3QFY22 OB. As per PNC, these are likely to contribute Rs15bn to revenue in FY23F. Including these, OB rises to Rs144bn (2.4x TTM Sales). Further, during Feb-Mar 2022, PNC has been declared as the lowest bidder in six HAM projects in Uttar Pradesh by NHAI with its total bid project cost at Rs69bn. Thus, we estimate PNC's OB/ sales in Mar 2022F to touch 3.2x.

Out of its portfolio of 11 HAM projects (excluding six where PNC is the lowest bidder and project award is awaited), five are operational and six are under construction. We believe PNC has to finance 33% of the OB as ~55% of Mar 2022F OB is expected to comprise HAM projects. Balance equity requirement for 12 HAM projects is Rs16.5bn, to be funded via internal accruals.

Figure 32: Order book details

(Rs bn)	FY19	FY20	FY21	9MFY22	FY22F	FY23F	FY24F
Closing Order book	122	86	116	121	190	204	170
Order Flow	80	12	79	48	133	80	40
Sales	31	48	49	44	59	66	74
OB/ TTM Sales (x)	4.0	1.8	2.4	2.0	3.2	3.1	2.3
% of OB from HAM	57	82	66		53		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 33: Post Dec 2021, PNC has L1 status from NHAI for six HAM projects in UP with its total bid project cost at Rs68.7bn, and 15 years' operation period post end of construction

Particulars	Length (kms)	Bid project cost (Rs bn)	Construction period (yr)	Date of L1 announcement
4 Laning of NH 530B from Gaju Village to Devinagar Bypass	33	7.4	2.0	14 Mar 22
4 laning paved shoulders NH 731	54	8.6	2.5	9 Mar 22
4 laning of Mathura Bypass to Gaju Village of NH 530B	33	8.9	2.0	25 Feb 22
6 lane upgradable to 8 lane of Pkg I of Kanpur-Lucknow Expressway	17	14.1	2.5	23 Feb 22
6 lane upgradable to 8 lane of Pkg II of Kanpur Lucknow Expressway	45	15.1	2.5	23 Feb 22
4 laning of Sonauli - Gorakhpur section of NH-29E	80	14.6	2.0	23 Feb 22
Total	262	68.7		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Consolidated RoCE is likely to reduce in FY21-24F as PNC has to fund 33% of its current order book >

Standalone RoCE was higher over FY20-21 (~41%) partly because of in-house projects (primarily HAM) accounting for 70% of PNC's OB in FY20-21. We expect a similar standalone RoCE in FY22F-24F.

Figure 34: PNC's key standalone financial ratios

(%)	FY19	FY20	FY21	FY22F	FY23F	FY24F
RoCE	30.4	41.4	42.2	41.3	41.8	47.8
EBIT margin	11.1	11.1	11.4	11.4	11.4	11.5
NFA/ Sales	20.2	12.3	13.4	10.9	9.2	7.6
NWC / Sales	21.3	14.4	14.6	21.0	17.0	17.0
Interest rate	15.1	16.7	11.9	11.0	11.0	11.0
EV/ EBITDA - EPC (x)				6.1	5.4	4.9

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 35: PNC's key consolidated financial ratios

(%)	FY19	FY20	FY21	FY22F	FY23F	FY24F
RoCE	17.2	18.7	19.5	16.5	13.4	10.0
RoE	18.9	24.0	17.7	14.6	11.3	12.0
Interest rate	12.9	12.3	10.3	10.5	11.9	7.7
Net Debt/ EBITDA (x)	2.5	2.1	2.0	1.9	5.7	5.3
EBIT/ Interest (x)	1.9	2.0	2.5	2.4	1.6	1.7
Net Debt/ Equity (x)	1.4	1.2	1.1	1.0	2.7	2.6
EV/ EBITDA (x)				6.3	5.5	4.6
P/E (x)				13.9	15.9	13.4
P/BV (x)				1.9	1.7	1.5

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Consolidated RoCE in FY20-21 was just 19%, despite high standalone RoCE (41%) as BOT assets (Rs51bn in Mar 2021) comprised 80% of consolidated balance sheet. PNC's RoCE of BOT assets is lower than that of EPC segment. Further, of the BOT assets in Mar 2021, Rs26bn (40% of balance sheet) worth are

under-construction HAM projects that are not generating revenue currently. Net debt / EBITDA was 2x in FY21, and we expect 5.3x net debt/ EBITDA in FY24F due to Rs37bn of under-construction HAM projects (24% of FY24F balance sheet).

Roll forward our TP to Mar 2023F; Upgrade to Add (from Reduce) with a revised TP of Rs316 (Rs264 earlier) ▶

We forecast EPC sales CAGR of 12% over FY20-24F (vs. 63% CAGR over FY18-20). We believe this is achievable considering 3.2x OB/sales (FY22F). PNC trades at attractive valuation (standalone EV/EBITDA of 5.4x FY23F). We reduce our FY22F/23F EBITDA by 33%/27%, respectively. We roll forward our TP to Mar 2023F, valuing the EPC business at 6x FY24F EV/EBITDA, close to its five-year median (6.1x) and a tad higher than our target EV/EBITDA for NCC (5.5x). While NCC has a higher OB/ sales, PNC's RoCE is higher than that of NCC. We have valued PNC's under-construction assets at 1x FY23F capex and operational BOT assets using DCF (11.5% WACC for BOT – Toll, 10.5% WACC for BOT – Annuity) methodology. We upgrade PNC to Add (from Reduce earlier) with a revised TP of Rs316 (Rs264 earlier). Downside risk is delay/capex overrun in HAM projects

Figure 36: Earnings revision

(Rs mn)	FY22F		FY23F		FY24F
	Old	New	Old	New	
Sales	75,546	68,463	83,606	77,102	87,671
% change		(9)		(8)	
EBITDA	21,734	14,529	22,866	16,775	19,987
% change		(33)		(27)	
PAT	5,940	4,796	7,436	4,197	4,966
% change		(19)		(44)	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 37: Median EV/EBITDA at 6.1x over last five years; stock currently trades at 5.4x FY23F EV/EBITDA



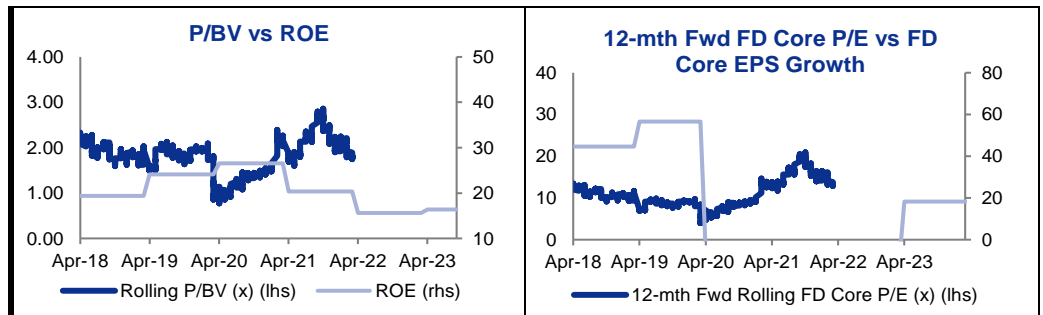
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 38: DCF-based target price

	Rs bn	Rs/ share	Comments
EV of EPC business	61	238	Valued at 6x FY24F EV/EBITDA
EV of Operational BOT assets	14	56	Valued using DCF; our target value implies 1.1x P/BV of invested equity
EV of Under construction assets	83	322	Valued at 1x Capex
EV of recent HAM projects (lowest bidder)	19	73	Valued at 1x Capex
Net Debt FY23F	(96)	(372)	
Total	81	316	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	54,931	57,876	68,463	77,102	87,671
Gross Profit	33,320	35,397	44,501	50,117	56,986
Operating EBITDA	12,177	14,179	14,529	16,775	19,987
Depreciation And Amortisation	(3,507)	(3,632)	(4,567)	(3,629)	(5,892)
Operating EBIT	8,670	10,546	9,962	13,146	14,095
Financial Income/(Expense)	(4,393)	(4,261)	(4,232)	(8,392)	(8,539)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,179	1,113	900	1,000	1,200
Profit Before Tax (pre-EI)	5,456	7,399	6,630	5,754	6,756
Exceptional Items					
Pre-tax Profit	5,456	7,399	6,630	5,754	6,756
Taxation	(1,694)	(2,472)	(1,877)	(1,600)	(1,833)
Exceptional Income - post-tax	1,672				
Profit After Tax	5,434	4,926	4,753	4,154	4,923
Minority Interests	65	43	43	43	43
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,499	4,969	4,796	4,197	4,966
Recurring Net Profit	3,827	4,969	4,796	4,197	4,966
Fully Diluted Recurring Net Profit	3,827	4,969	4,796	4,197	4,966

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	12,177	14,179	14,529	16,775	19,987
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,317)	(11,224)	(5,469)	(73,682)	(15,645)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(4,393)	(4,261)	(4,232)	(8,392)	(8,539)
Tax Paid	(1,694)	(2,472)	(1,877)	(1,600)	(1,833)
Cashflow From Operations	(2,227)	(3,778)	2,951	(66,899)	(6,030)
Capex	(778)	(1,795)	(2,375)	(2,183)	(4,586)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(1,819)	(1,342)	(2,423)		
Other Investing Cashflow	2,851	1,113	900	1,000	1,200
Cash Flow From Investing	255	(2,024)	(3,898)	(1,183)	(3,386)
Debt Raised/(repaid)	6,879	4,870	(7,336)	68,029	11,474
Proceeds From Issue Of Shares	(40)	180			
Shares Repurchased					
Dividends Paid	(160)	(160)	(176)	(194)	(213)
Preferred Dividends					
Other Financing Cashflow	421	1,146	43	43	43
Cash Flow From Financing	7,100	6,036	(7,469)	67,877	11,303
Total Cash Generated	5,127	234	(8,416)	(204)	1,887
Free Cashflow To Equity	4,906	(932)	(8,282)	(53)	2,058
Free Cashflow To Firm	2,420	(1,541)	3,285	(59,689)	(877)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	9,211	9,445	1,029	825	2,712
Total Debtors	36,087	44,359	65,752	165,459	181,104
Inventories	2,673	3,536	4,137	4,634	5,189
Total Other Current Assets	11,124	14,208	14,988	16,193	17,543
Total Current Assets	59,094	71,548	85,906	187,111	206,549
Fixed Assets	19,781	18,004	15,811	14,364	13,059
Total Investments	4,444	5,786	8,209	8,209	8,209
Intangible Assets					
Total Other Non-Current Assets	1,584	415	415	415	415
Total Non-current Assets	25,809	24,205	24,435	22,988	21,683
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	20,346	21,341	38,646	66,373	68,279
Total Current Liabilities	20,346	21,341	38,646	66,373	68,279
Total Long-term Debt	39,015	43,884	36,548	104,577	116,051
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	39,015	43,884	36,548	104,577	116,051
Total Provisions					
Total Liabilities	59,360	65,226	75,195	170,950	184,330
Shareholders Equity	25,543	30,532	35,151	39,154	43,906
Minority Interests		(5)	(5)	(5)	(5)
Total Equity	25,543	30,527	35,146	39,149	43,901

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	45.5%	5.4%	18.3%	12.6%	13.7%
Operating EBITDA Growth	20.9%	16.4%	2.5%	15.5%	19.1%
Operating EBITDA Margin	22.2%	24.5%	21.2%	21.8%	22.8%
Net Cash Per Share (Rs)	(116.17)	(134.24)	(138.46)	(404.43)	(441.80)
BVPS (Rs)	99.57	119.01	137.02	152.62	171.15
Gross Interest Cover	1.97	2.48	2.35	1.57	1.65
Effective Tax Rate	31.0%	33.4%	28.3%	27.8%	27.1%
Net Dividend Payout Ratio	2.9%	2.2%	2.6%	3.3%	3.1%
Accounts Receivables Days	210.11	253.67	293.52	547.27	721.42
Inventory Days	56.65	50.41	58.44	59.31	58.42
Accounts Payables Days					
ROIC (%)	19.0%	20.7%	16.8%	21.0%	10.5%
ROCE (%)	14.8%	15.2%	13.6%	12.2%	9.3%
Return On Average Assets	12.5%	12.9%	10.5%	8.8%	7.0%

Key Drivers					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Outstanding Orderbook	86,290	116,480	190,488	204,306	170,181
Orderbook Replenishment	11,874	79,444	133,100	80,000	40,000

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

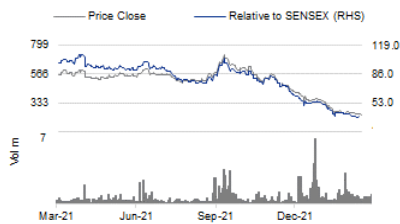
ADD (no change)

Consensus ratings*:	Buy 6	Hold 2	Sell 2
Current price:	Rs241		
Target price:	Rs400		
Previous target:	Rs662		
Up/downside:	66.0%		
InCred Research / Consensus:	-14.8%		
Reuters:	DIBL.NS		
Bloomberg:	DBL IN		
Market cap:	US\$464m		
	Rs35,238m		
Average daily turnover:	US\$4.9m		
	Rs371.1m		
Current shares o/s:	136.8m		
Free float:	29.9%		

*Source: Bloomberg

Key changes in this note

- Cut FY22F EBITDA by 66%.
- Cut FY23F EBITDA by 22%.
- Roll forward TP to Mar 2023F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.4)	(49.7)	(57.0)
Relative (%)	(13.0)	(49.8)	(62.8)

Major shareholders	% held
Promoter & Promoter Group	70.2
HDFC Trustee Company Ltd	5.9
LIC of India	3.0

Analyst(s)



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Dilip Buildcon Ltd

Risky bet, but trades at trough valuation

- Dilip Buildcon has a strong order book or OB (2.6x TTM sales in Dec 2021) and 88% of the OB is expected to be under the construction phase in FY23F.
- We roll forward our SOTP-based TP to Mar 2023F. Retain Add rating with a revised TP of Rs400. Adverse outcome of the ongoing CBI probe is a key risk.

Strong order book - 82% under construction but 3QFY22 was dismal

Dilip Buildcon Limited (DBL) won two orders worth Rs33bn in 3QFY22, after which the OB (Rs241bn; 2.6x TTM sales) is healthy. 82% of the OB is under the construction phase vs. 73% in June 2021, despite Rs28bn (12% of OB) being recent orders. At least 88% of the OB is likely to be live in FY23F. HAM accounts for 32% of the OB and thus, DBL has to fund 19% of the OB. 3QFY22 was dismal as sales dipped 11% yoy while opex rose 6% yoy, leading to a 98% yoy EBITDA decline because of a) slow execution due to prolonged monsoon, b) rise in raw material cost (up 30-40% yoy) but only partly passed on to awarding authorities, and c) the impact of fixed costs on scaled-down operations – employee & labour expenses (fixed for DBL) stood at 25%/29% of FY21 sales/operating cost, respectively. DBL expects 13-14% EBITDA margin in FY23F vs. 17.8% margin over FY18-20. In mid-Jul 2021, NHAI imposed a temporary restraint on DBL from participating in its bids due to an accident at a project site. The temporary restriction ended on 12 Oct 2021. This is positive for DBL as it provides visibility to OB growth.

Roll forward TP to Mar 2023F, stands revised to Rs400; maintain Add

We forecast EPC sales CAGR of just 1.5% over FY20-24F. We believe this is achievable as a) DBL has a strong OB (2.6x OB/sales in Dec 2021), and (b) 88% of OB is likely to be under the construction phase in FY23F. DBL trades at an attractive valuation of 3.6x FY23F EV/EBITDA, at a 40% discount to its five-year average. We reduce our FY22F/23F EBITDA by 66%/22%, respectively. We roll forward our TP to Mar 2023F, valuing the core EPC business at 5x EV/EBITDA FY24F (25% discount to its five-year median). We maintain Add rating on DBL with a revised TP of Rs400 (Rs662 earlier). On 31 Dec 2021, an executive director (ED) of DBL was taken into custody for interrogation by the Central Bureau of Investigation (CBI). He was released from CBI custody on 7 Jan 2022. This is an ongoing investigation whose outcome is uncertain, and a key downside risk to our target price.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	97,249	101,683	93,914	111,720	112,060
Operating EBITDA (Rsm)	20,675	21,284	10,515	22,732	24,219
Net Profit (Rsm)	4,047	4,183	(4,796)	4,359	5,094
Core EPS (Rs)	24.5	28.2	(33.9)	29.8	34.8
Core EPS Growth	(38.6%)	15.3%	(219.9%)	(188.1%)	16.9%
FD Core P/E (x)	8.14	7.88	(7.12)	8.08	6.92
DPS (Rs)	1.0	1.0	1.0	1.0	1.0
Dividend Yield	0.50%	0.50%	0.50%	0.50%	0.50%
EV/EBITDA (x)	6.43	6.74	11.93	6.36	5.65
P/FCFE (x)	11.67	11.80	(5.29)	(4.29)	(25.71)
Net Gearing	299.3%	282.8%	267.3%	286.0%	233.7%
P/BV (x)	1.03	0.97	1.21	1.06	0.92
ROE	11.2%	11.7%	(15.2%)	14.0%	14.3%
% Change In Core EPS Estimates			(233.56%)	(41.71%)	
InCred Research/Consensus EPS (x)			9.49	1.39	1.13

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Risky bet, but trades at trough valuation

Strong OB - 82% under construction but 3QFY22 was dismal ▶

DBL won two orders worth Rs33bn in 3QFY22, after which the OB (Rs241bn; 2.6x TTM sales) is healthy. 82% of the OB is under the construction phase vs. 73% in June 2021, despite Rs28bn (12% of the OB) being recent orders. DBL received appointed dates (AD) for 21 HAM projects in all (26% of OB), of which two projects were received in 3QFY22.

Construction is yet to start for 2 HAM projects where AD is pending (likely by Mar 2022F) and two EPC projects. Thus, at least 88% of the OB is likely to be live in FY23F. HAM projects account for 32% of the OB and thus, DBL has to fund 19% of the OB. Roads, bridges & tunnels/ irrigation/ mining projects comprised 56%/ 19%/ 24%, respectively, of DBL's OB.

Figure 39: Projects where construction is yet to start (1QFY22 call)

(Rs bn)	State	Mode	Industry	Value
Pachhwarra Central Coal Block (MDO Project)	Jharkhand	EPC	Mining	5.8
Delhi - Vadodara Greenfield Expressway (Pkg - 15)	Rajasthan	EPC	Tunnel	8.9
Total - EPC projects				14.8
Dhrol - Bhadra Patiya	Gujarat	HAM	Road	6.0
Bangalore Chennai Expressway (Ph-I Pkg-I)	Karnataka	HAM	Road	8.2
Bangalore Chennai Expressway (Ph-I Pkg-II)	Karnataka	HAM	road	9.2
Viluppuram Puducherry	TN & Puducherry	HAM	Road	7.1
Puducherry Poondiyanuppam	TN & Puducherry	HAM	Road	9.0
Bangalore Chennai Expressway (Ph-II Pkg-III)	AP	HAM	Road	7.6
Sannur to Bikarnakette (Package-III)	Karnataka	HAM	Road	7.3
Total - HAM projects				54.3
Grand Total				69.1

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 40: Projects where construction is yet to start (3QFY22 call)

(Rs bn)	State	Mode	Industry	Value
Amadand OCP (OB Removal Project)	Madhya Pradesh	Mining	Mining	22.7
Tunnels T14, T15 and T16 in Bilaspur	Himachal Pradesh	EPC	Tunnel	5.7
Sannur to Bikarnakette (Package-III)	Karnataka	HAM	Road	7.3
Bangalore Chennai Expressway (Ph-II Package-III)	Andhra Pradesh	HAM	Road	7.6
Grand Total				43.3

SOURCES: INCRED RESEARCH, COMPANY REPORTS

3QFY22 was dismal: Sales dipped 11% yoy while opex rose 6% yoy, leading to a 98% yoy EBITDA decline due to a) slow execution because of a prolonged monsoon, b) rise in raw material cost (up 30-40% yoy) but only partly passed on to awarding authorities, and (c) the impact of fixed costs on scaled-down operations – employee & labour expenses (fixed for DBL) at 25%/29% of FY21 sales/ operating cost, respectively.

DBL expects Rs92bn revenue in FY22F (flat yoy), implying Rs27bn sales in 4QFY22F (down 8% yoy). DBL does not expect early completion bonus in FY22F-23F (1-1.5% of sales in FY18-20) as National Highways Authority of India or NHAI reduced the timeline for eligibility of bonus. DBL expects 13-14% EBITDA margin in FY23F vs. 17.8% margin over FY18-20.

Figure 41: DBL's order book, order flow and order book cover over FY19 to 9MFY22

(Rs bn)	FY19	FY20	FY21	9MFY22	FY22F	FY23F	FY24F
Closing Order bk	212	191	274	241	232	223	188
Order Flow	64	69	175	32	49	87	61
Sales	91	90	92	65	91	96	96
OB/ TTM Sales (x)	2.3	2.1	3.0	2.6	2.5	2.3	2.0
EBITDA margin %	17.8	17.5	16.0	8.0	8.8	14.0	15.5
EBITDA margin ex bonus %	17.5	16.4	15.8	8.0	8.8	14.0	15.5
NWC/ Sales %	36	39	39	32	44	44	44
OB from Roads & bridges	83	70	65	55			

SOURCES: INCRED RESEARCH, COMPANY REPORTS

DBL allowed to participate in NHAI bids: In mid-Jul 2021, NHAI imposed a temporary restraint on DBL for participating in its bids due to an accident at a project site. On 30 Sep 2021, DBL announced that the temporary restriction would

end on 12 Oct 2021. DBL is required to deposit a financial penalty of Rs30m with NHA. This is positive for DBL as it provides visibility on OB growth.

Ongoing investigation by Central Bureau of Investigation (CBI) – key risk as the outcome is uncertain ►

CBI officials visited the premises of DBL on 31 Dec 2021. DBL has provided the following clarification. (Link: [Clarification by DBL on 2 Jan 2022](#))

- No executive director (ED) of DBL was involved in “trying to bribe an NHA official”. However, on 31 Dec 2021, an ED of DBL was taken into CBI custody for interrogation.
- A CBI team visited DBL’s premises and the residence of the ED at Bhopal on 31 Dec 2021 and sought operational and financial information about some officials of the company. Despite this, DBL was not served with any notice for requisition of information. DBL said it has provided all information and is cooperating fully with CBI.
- The outcome of the search (search memo/report) concluded that “nothing has been found at the residence of the concerned ED at Bhopal”. No cash was recovered from the residence of the ED or from the corporate office of DBL. CBI has not visited any of the operational site offices of DBL.
- All employees of DBL in the custody of CBI have now been released.

RoCE likely to bottom out in FY22F ►

Standalone RoCE is expected to decline from 22.7% (FY19-20) to 7% in FY22F due to the decline in EBIT margin from 12.8% in FY20 to 4.4% in FY22F. Consolidated RoE in FY21 was just 12.3% as BOT assets (Rs83bn) comprise 58% of consolidated FY21 balance sheet. RoCE of BOT assets is lower than that of EPC segment. Net debt/EBITDA was 5x in FY21, and we expect it to decline to 4x by FY24F.

Figure 42: Key standalone financial ratios

(%)	FY19	FY20	FY21	FY22F	FY23F	FY24F
RoCE	24.9	20.6	19.1	7.0	15.4	15.9
EBIT margin	14.3	12.8	11.5	4.4	9.5	10.2
NFA/ Sales	22.8	22.6	20.8	16.6	18.6	21.7
NWC / Sales	39.8	37.7	41.3	47.0	44.0	44.0
Interest rate	14.7	15.5	15.0	16.0	16.0	16.0
EV/ EBITDA - EPC (x)			3.6	6.5	3.9	3.5

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 43: Key consolidated financial ratios

(%)	FY19	FY20	FY21	FY22F	FY23F	FY24F
RoCE	12.6	12.2	11.9	5.0	12.7	13.5
RoE	19.4	12.7	12.3	(16.5)	13.1	13.4
Interest rate	11.6	11.7	10.6	10.8	13.0	12.1
Net Debt/ EBITDA (x)	4.7	4.8	5.0	8.3	4.6	4.0
EBIT/ Interest (x)	1.6	1.4	1.4	0.5	1.4	1.5
Net Debt/ Equity (x)	2.9	3.0	2.8	2.7	2.9	2.3
EV/ EBITDA (x)			6.2	13.4	6.2	5.8
P/E (x)			8.1	(7.6)	8.3	7.1
P/BV (x)			1.0	1.3	1.1	1.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Details regarding divestment of HAM projects ►

Deal with Shrem (Unlisted) in Mar 2018 – Sale of 24 BOT projects for Rs10.2bn. In 2QFY22, DBL’s stake in eight projects was transferred to Shrem and not consolidated (rest transferred earlier). Consolidated debt reduced by Rs33.4bn.

Deal with Cube Highways (Unlisted) in Aug 2019 for sale of five HAM projects by 1QFY23F: DBL has infused a sum of Rs2.9bn. Between 50% completion (1QFY21) and commencement of operations (COD), Cube will infuse Rs2.8bn of optionally convertible debentures. DBL received Rs2.9bn (vs total payment of Rs4.3bn) for transfer of its 49% equity stake and the remaining is likely in 1QFY23F. While Cube’s payment is 48% higher than DBL’s equity, the payment is after ~ four years. In addition to its EPC margin, we estimate DBL’s IRR at ~12%, which is reasonable.

DBL executed a non-binding Term Sheet with Shrem InvIT (Jan 2022) to transfer equity in 10 HAM projects (three completed) after construction for Rs23.5bn (Rs6bn cash & Rs17bn in InvIT Units) vs. required equity of Rs15bn.

Roll forward our TP to Mar 2023F; maintain Add with a revised TP of Rs400 (Rs662 earlier) ▶

We forecast EPC sales CAGR of just 1.5% over FY20-24F. We believe this is achievable as a) DBL has a strong OB (2.6x OB/sales in Dec 2021) and b) 88% of the OB is likely to be under the construction phase in FY23F. DBL trades at an attractive valuation of 3.6x FY23F EV/EBITDA, at a 40% discount to its five-year average. We reduce our FY22F/23F EBITDA by 66%/ 22%, respectively. We roll forward our TP to Mar 2023F, valuing the core EPC business at 5x FY24F EV/EBITDA (25% discount to its five-year median). We maintain Add rating on DBL with a revised TP of Rs400 (Rs662 earlier).

Figure 44: Earnings revision

(Rs mn)	FY22F		FY23F		FY24F
	Old	New	Old	New	
Sales	121,157	93,914	128,701	111,720	112,060
% change		(22)		(13)	
EBITDA	31,359	10,515	29,031	22,732	24,219
% change		(66)		(22)	
PAT	5,400	(4,796)	6,518	4,663	5,459
% change		(189)		(28)	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 45: Median EV/EBITDA of 6.6x over last five years; stock currently trades at 3.6x FY23F EV/EBITDA



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 46: SOTP-based target price

	(Rs bn)	Rs/ share	Comments
EPC business target EV	74	505	Valued at 5x EV/EBITDA FY24F
HAM target EV	87	596	Valued at capex
Mine developer and operator business	3	21	
Less : Net Debt (FY23F)	-106	-723	
Total	58	400	

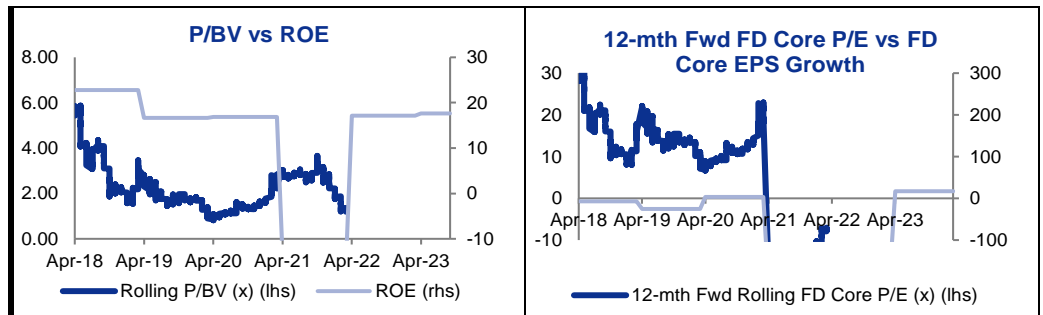
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Downside risks: (a) Material adverse outcome of CBI investigation against the company. (b) Project cost escalation in HAM projects. In 2QFY22, equity required in HAM and mining projects was increased by Rs2.9bn (9%; Rs20/share) vs. that in 1QFY22, due to the rise in raw material prices. Rs10-12/ share can be passed on to authorities via higher annuity to DBL and thus, the impact on DBL is ~Rs7-8/share.

Figure 47: Change in equity requirement over 1Q to 2QFY22

(Rs bn)	Equity requirement		Equity invested	
	1QFY22 PPT	2QFY22 PPT	Till Sep 21	Till Mar 21
12 HAM – Awarded in 2018	15.6			13.8
5 HAM - Awarded in 2020	5.4			1.0
6 HAM - Awarded in 2021	6.5			-
23 HAM	27.5	29.1	17.7	14.8
Siarmal Coal Project	4.0	5.0	-	
Pachhwara Coal Project	0.6	0.9	-	
Total Equity	32.0	34.9	17.7	14.8

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	97,249	101,683	93,914	111,720	112,060
Gross Profit	26,415	25,961	23,726	38,022	38,363
Operating EBITDA	20,675	21,284	10,515	22,732	24,219
Depreciation And Amortisation	(4,705)	(4,429)	(4,571)	(4,921)	(5,671)
Operating EBIT	15,970	16,854	5,944	17,811	18,548
Financial Income/(Expense)	(11,356)	(11,733)	(11,182)	(12,892)	(12,654)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	377	422	443	400	400
Profit Before Tax (pre-EI)	4,991	5,543	(4,796)	5,319	6,294
Exceptional Items					
Pre-tax Profit	4,991	5,543	(4,796)	5,319	6,294
Taxation	(1,642)	(1,681)		(960)	(1,200)
Exceptional Income - post-tax	699	321			
Profit After Tax	4,047	4,183	(4,796)	4,359	5,094
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,047	4,183	(4,796)	4,359	5,094
Recurring Net Profit	3,349	3,862	(4,796)	4,359	5,094
Fully Diluted Recurring Net Profit	3,349	3,862	(4,796)	4,359	5,094

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	20,675	21,284	10,515	22,732	24,219
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(19,778)	(2,698)	30,224	600	(136)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	699	321			
Other Operating Cashflow					
Net Interest (Paid)/Received	(10,979)	(11,311)	(10,739)	(12,492)	(12,254)
Tax Paid	(1,642)	(1,681)		(960)	(1,200)
Cashflow From Operations	(11,026)	5,915	30,000	9,880	10,629
Capex	(5,039)	(11,149)	(13,325)	(33,138)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(5,039)	(11,149)	(13,325)	(33,138)	(8,000)
Debt Raised/(repaid)	18,890	8,028	(23,118)	15,051	(3,999)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(164)	(164)	(175)	(175)	(175)
Preferred Dividends					
Other Financing Cashflow	13	(2,428)	2,653	5,348	5,348
Cash Flow From Financing	18,740	5,436	(20,640)	20,224	1,173
Total Cash Generated	2,675	202	(3,965)	(3,034)	3,802
Free Cashflow To Equity	2,826	2,794	(6,443)	(8,207)	(1,370)
Free Cashflow To Firm	(4,709)	6,499	27,858	(10,366)	15,283

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	7,886	8,088	4,123	1,089	4,891
Total Debtors	35,860	36,184	18,089	17,079	17,215
Inventories	26,455	30,485	32,815	33,499	33,499
Total Other Current Assets	37,893	39,720	28,257	29,670	29,670
Total Current Assets	108,094	114,477	83,285	81,337	85,275
Fixed Assets	57,477	66,462	72,563	95,432	92,413
Total Investments					
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	57,477	66,462	72,563	95,432	92,413
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	27,247	30,730	33,727	35,413	35,413
Total Current Liabilities	27,247	30,730	33,727	35,413	35,413
Total Long-term Debt	106,759	114,787	91,670	106,721	102,722
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	106,759	114,787	91,670	106,721	102,722
Total Provisions	(1,470)	(2,303)	(2,303)	(2,303)	(2,303)
Total Liabilities	132,536	143,214	123,093	139,831	135,832
Shareholders Equity	31,889	33,998	29,027	33,211	38,129
Minority Interests	1,146	3,727	3,727	3,727	3,727
Total Equity	33,035	37,725	32,754	36,938	41,856

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	3.3%	4.6%	(7.6%)	19.0%	0.3%
Operating EBITDA Growth	17.1%	2.9%	(50.6%)	116.2%	6.5%
Operating EBITDA Margin	21.3%	20.9%	11.2%	20.3%	21.6%
Net Cash Per Share (Rs)	(722.92)	(780.14)	(598.94)	(722.67)	(669.30)
BVPS (Rs)	233.16	248.58	198.58	227.21	260.86
Gross Interest Cover	1.41	1.44	0.53	1.38	1.47
Effective Tax Rate	32.9%	30.3%		18.1%	19.1%
Net Dividend Payout Ratio	3.3%	3.0%	(3.7%)	3.3%	2.8%
Accounts Receivables Days	103.91	129.30	105.47	57.45	55.85
Inventory Days	132.69	137.23	164.59	164.22	165.91
Accounts Payables Days					
ROIC (%)	14.4%	12.9%	4.2%	15.1%	13.2%
ROCE (%)	12.6%	11.7%	4.4%	13.5%	13.1%
Return On Average Assets	10.6%	10.0%	3.8%	11.0%	10.7%

Key Drivers					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Outstanding Orderbook (Rs m)	190,816	274,114	232,233	223,177	188,124
Orderbook Replenishment (Rs m)	68,936	175,387	52,518	86,654	60,658

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

REDUCE (no change)

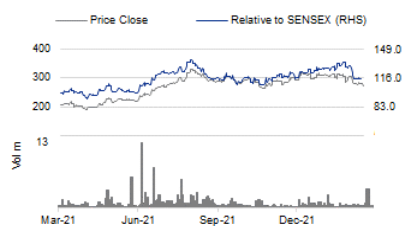
Consensus ratings*: Buy 25 Hold 2 Sell 1

Current price:	Rs272
Target price:	Rs261 ▲
Previous target:	Rs220
Up/downside:	-4.0%
InCred Research / Consensus:	-24.3%
Reuters:	KNRL.NS
Bloomberg:	KNRC IN
Market cap:	US\$1,007m Rs76,524m
Average daily turnover:	US\$2.3m Rs175.2m
Current shares o/s:	281.2m
Free float:	48.5%

*Source: Bloomberg

Key changes in this note

- Increase FY22F EBITDA by 13%.
- Increase FY23F EBITDA by 9%.
- Roll forward TP to Mar 2023F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(12.1)	(9.2)	32.2
Relative (%)	(14.7)	(9.4)	14.4

Major shareholders	% held
Promoter and Promoter group	51.5
DSP Equity Fund	6.4
HDFC Trustee Company Ltd	6.4

Analyst(s)

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KNR Constructions Ltd

Stretched valuation; maintain Reduce

- KNR's strong order book augurs well for execution over FY23F-24F.
- We roll forward our TP to Mar 2023F. Maintain Reduce rating with a revised TP of Rs261 (Rs220 earlier), valuing EPC business at 7.5x FY24F EV/EBITDA.

Strong order book augurs well for execution over FY23F-24F

Reported 2QFY22 order book (OB) of Rs65bn is 2.1x TTM sales. KNR won EPC projects worth Rs51bn, (two Hybrid Annuity Model or HAM projects worth Rs41bn, one road project worth Rs10bn) which were not a part of 2QFY22 OB. Appointed dates (AD) for these have now been received. Thus, OB in Dec 2021 stood at Rs100bn (3.1x TTM sales). Further, KNR has a HAM project worth Rs7.7bn (Chittoor-Thatchur), which is not yet a part of the OB. Including this, OB rises to Rs107.7bn (3.4x TTM sales). Entire OB is expected to be under the construction phase in FY23F. HAM/road EPC/ irrigation projects comprise 47%/29%/ 24%, respectively, of OB. KNR has to fund 28% of its OB. Four states in South India (Andhra Pradesh, Telangana, Tamil Nadu, and Karnataka) accounted for 66% of KNR Construction or KNR's Dec 2021 OB.

Roll forward our target price to Mar 2023F; maintain Reduce

We increase our FY22F/23F EBITDA by 13%/9%, respectively. We forecast EPC sales CAGR of 18% over FY20-24F (vs. 14% CAGR over FY17-20) and factor in 19.5% EBITDA margin in FY23F-24F. We believe this is achievable considering 3.4x OB/sales (FY22F). We roll forward our TP to Mar 2023F, valuing the EPC business at 7.5x FY24F EV/EBITDA (17% premium to five-year median of 6.4x). We believe our premium is justified as OB/sales is 3x, a tad higher than average OB/sales over FY19-21. However, currently KNR trades at 10x FY23F EV/EBITDA, which is at a 50% premium to five-year median. Thus, we believe that its valuation is stretched. We maintain Reduce rating on the stock with a revised TP of Rs261 (Rs220 earlier). Higher-than-expected order wins and a better-than-expected pick-up in execution are key upside risks.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	24,517	29,036	33,925	39,023	44,988
Operating EBITDA (Rsm)	6,224	6,994	7,562	8,731	10,157
Net Profit (Rsm)	2,559	3,828	4,914	4,487	5,320
Core EPS (Rs)	9.5	10.6	12.3	16.0	18.9
Core EPS Growth	(0.3%)	11.6%	16.0%	30.0%	18.6%
FD Core P/E (x)	28.70	25.72	22.16	17.05	14.38
DPS (Rs)	0.5	0.3	0.5	0.5	0.5
Dividend Yield	0.21%	0.11%	0.23%	0.23%	0.23%
EV/EBITDA (x)	13.83	12.14	11.94	10.10	8.68
P/FCFE (x)	58.25	62.40	(349.29)	33.70	63.75
Net Gearing	62.0%	45.3%	58.5%	42.3%	35.9%
P/BV (x)	4.90	3.89	3.13	2.66	2.26
ROE	18.6%	16.9%	15.7%	16.9%	17.0%
% Change In Core EPS Estimates			8.13%	8.78%	
InCred Research/Consensus EPS (x)			1.00	1.06	0.98

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Stretched valuation; maintain Reduce

Strong order book augurs well for execution over FY23F-24F ▶

Reported 2QFY22 OB of Rs65bn is 2.1x TTM sales. KNR won EPC projects worth Rs51bn (two HAM projects worth Rs41bn, one road project Rs10bn) which were not a part of 2QFY22 OB. Appointed dates (AD) for these have now been received. Thus, OB as at end-Dec 2021 stood at Rs100bn (3.1x TTM sales). Further, KNR has a HAM project worth Rs7.7bn (Chittoor-Thatchur), which is not yet a part of the OB. Including this, OB rises to Rs107.7bn (3.4x TTM sales). Entire OB is expected to be under the construction phase in FY23F.

HAM/ road EPC/ irrigation projects account for 47%/ 29%/ 24%, respectively, of OB. KNR has to fund 28% of its OB. Four states in South India (Andhra Pradesh, Telangana, Tamil Nadu, and Karnataka) accounted for 66% of KNR Construction's Dec 2021 OB.

Figure 48: Order book details

(Rs bn)	FY19	FY20	FY21	9MFY22	FY22F	FY23F	FY24F
Closing Order book	40	52	71	100	97	107	93
Order flow		35	46	52	59	47	28
Sales	21	22	27	23	32	37	43
OB/ TTM Sales (x)	1.9	2.3	2.6	3.1	3.0	2.9	2.2
% of OB from HAM	66	47	26	47			
% of OB from Road - EPC	30	23	31	29			
% of OB from Irrigation	4	30	44	24			
EBITDA margin %	20.0	21.7	19.8	20.8	19.5	19.5	19.5

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Other developments: Completion of the deal with Cube for three HAM projects (total bid project cost: Rs40bn) is likely by Jun 2022F, for Rs4.7bn. In Dec 2021, KNR transferred 49% stake in Tirumala/Shankarampet projects for Rs1.4bn/ Rs1bn, including repayment of sub-debt (Rs0.9bn/Rs0.7bn), respectively, resulting in Rs214m profit in 3QFY22, booked as exceptional income. The remaining 51% stake sale is expected by Jun 2022F.

Consolidated RoCE in FY23F-24F likely to be same as in FY21 ▶

Standalone RoCE was higher over FY19-21 (25-30%) partly because in-house projects (primarily HAM) accounted for ~50% of KNR's OB in FY19-20. We expect a similar standalone RoCE in FY22F-24F. NWC/sales has been ~20% over FY20-21. Consolidated net debt/EBITDA was 1.3x in FY21, and we expect 1.2x net debt/EBITDA in FY24F.

Figure 49: KNR Construction's key standalone financial ratios							Figure 50: KNR Construction's key consolidated financial ratios						
(%)	FY19	FY20	FY21	FY22F	FY23F	FY24F	(%)	FY19	FY20	FY21	FY22F	FY23F	FY24F
ROCE	26.9	25.2	29.7	32.5	32.6	32.5	ROCE	15.6	16.0	19.1	17.6	17.4	18.9
EBIT margin	12.1	13.2	14.5	15.0	15.2	15.4	ROE	22.7	18.6	16.9	15.7	16.9	17.0
NFA/ Sales (x)	19.4	19.8	16.0	12.7	13.0	14.4	Interest rate	10.8	11.7	12.7	7.5	6.4	7.0
NWC/ Sales (x)	12.8	19.2	22.9	24.8	25.2	25.6	Net Debt/ EBITDA (x)	1.5	1.6	1.3	1.9	1.4	1.2
Interest rate	10.4	13.9	19.6	18.0	18.0	18.0	EBIT/ Interest (x)	3.4	3.3	3.8	6.0	7.0	7.3
EV/EBITDA (x) - EPC				10.9	9.5	8.3	Net Debt/ Equity (x)	0.6	0.6	0.5	0.6	0.4	0.4
							EV/EBITDA (x)				11.4	9.9	8.5
							P/E (x)				15.9	17.4	14.6
							P/BV (x)				3.2	2.7	2.3

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Roll forward our TP to Mar 2023F; maintain Reduce ▶

We increase our FY22F/23F EBITDA by 13%/ 9%, respectively. We forecast EPC sales CAGR of 18% over FY20-24F (vs. 14% CAGR over FY17-20) and factor in 19.5% EBITDA margin in FY23F-24F. We believe this is achievable considering the 3x OB/sales (in FY22F).

We roll forward our TP to Mar 2023F, valuing the EPC business at 7.5x FY24F EV/EBITDA (17% premium to five-year median of 6.4x). We believe our premium is justified as OB/sales is 3.1x, a tad higher than average OB/ sales over FY19-21. However, currently KNR trades at 9.5x FY23F EV/EBITDA, which is at a 50% premium to five-year median. Thus, we believe that its valuation is stretched. We maintain Reduce rating on the stock with a revised TP of Rs261 (Rs220 earlier).

Figure 51: Earnings revision

(Rs m)	FY22F		FY23F		FY24F
	Old	New	Old	New	New
Sales	31,999	33,925	38,261	39,023	44,988
% change		6		2	
EBITDA	6,713	7,562	8,017	8,731	10,157
% change		13		9	
PAT	4,654	4,914	4,125	4,487	5,320
% change		6		9	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 52: Median EV/EBITDA of 6.4x over the last five years; currently, the stock trades at 10x FY23F EV/EBITDA

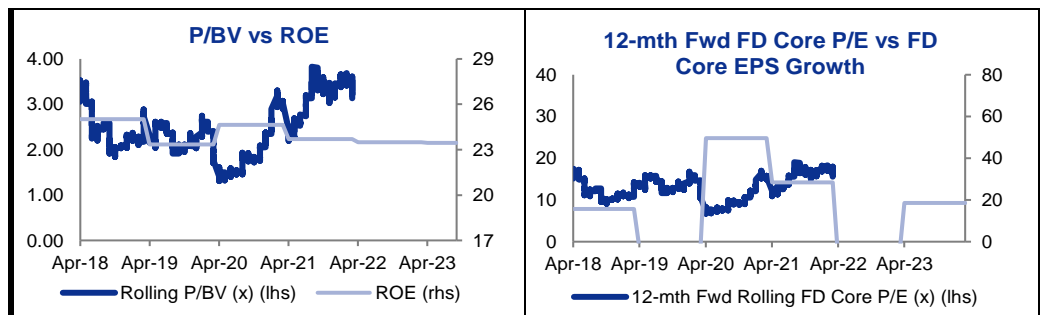


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 53: SOTP-based target price

	(Rs bn)	Rs/ share	Comments
EV of EPC Business	62.6	223	Valued at 7.5x EV/EBITDA FY24F
Equity value of BOT assets	6.5	23	Our target equity value implies 1x PBV FY23F
Less Standalone Net Debt FY23F	2.0	7	
Arbitration claims awarded, but client did not accept	2.3	8	Valued at 50% of claim amount
Total	73.5	261	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	24,517	29,036	33,925	39,023	44,988
Gross Profit	8,093	9,086	10,178	13,658	15,746
Operating EBITDA	6,224	6,994	7,562	8,731	10,157
Depreciation And Amortisation	(2,541)	(1,899)	(1,741)	(1,885)	(2,044)
Operating EBIT	3,683	5,095	5,822	6,846	8,113
Financial Income/(Expense)	(1,102)	(1,340)	(973)	(981)	(1,114)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	657	516	350	350	350
Profit Before Tax (pre-EI)	3,238	4,271	5,198	6,215	7,349
Exceptional Items					
Pre-tax Profit	3,238	4,271	5,198	6,215	7,349
Taxation	(685)	(1,370)	(1,771)	(1,756)	(2,021)
Exceptional Income - post-tax	(107)	853	1,461		
Profit After Tax	2,445	3,754	4,888	4,458	5,328
Minority Interests	114	74	25	29	(8)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,559	3,828	4,914	4,487	5,320
Recurring Net Profit	2,667	2,976	3,453	4,487	5,320
Fully Diluted Recurring Net Profit	2,667	2,976	3,453	4,487	5,320

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	6,224	6,994	7,562	8,731	10,157
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,696)	(7,992)	(10,348)	(1,073)	(4,171)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,102)	(1,340)	(973)	(981)	(1,114)
Tax Paid	(685)	(1,370)	(1,771)	(1,756)	(2,021)
Cashflow From Operations	(259)	(3,707)	(5,530)	4,920	2,850
Capex	(1,469)		(1,500)	(3,000)	(3,000)
Disposals Of FAs/subsidiaries		3,815			
Acq. Of Subsidiaries/investments	(139)	42			
Other Investing Cashflow	550	1,369	1,811	350	350
Cash Flow From Investing	(1,058)	5,226	311	(2,650)	(2,650)
Debt Raised/(repaid)	2,631	(292)	5,000		1,000
Proceeds From Issue Of Shares	5	79			
Shares Repurchased					
Dividends Paid	(162)	(81)	(176)	(176)	(176)
Preferred Dividends					
Other Financing Cashflow	(604)	(574)	19	29	(8)
Cash Flow From Financing	1,870	(869)	4,843	(147)	817
Total Cash Generated	553	650	(376)	2,124	1,017
Free Cashflow To Equity	1,314	1,226	(219)	2,270	1,200
Free Cashflow To Firm	(215)	2,859	(4,246)	3,252	1,315

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	829	1,478	1,102	3,226	4,243
Total Debtors	1,746	3,329	3,332	4,204	5,206
Inventories	1,232	1,480	1,620	1,862	2,141
Total Other Current Assets	17,718	25,384	32,978	44,245	50,964
Total Current Assets	21,525	31,671	39,032	53,537	62,554
Fixed Assets	4,662	4,166	4,222	5,634	6,887
Total Investments	658	617	617	617	617
Intangible Assets	8,188	3,618	3,327	3,030	2,733
Total Other Non-Current Assets					
Total Non-current Assets	13,508	8,401	8,166	9,281	10,238
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	8,376	9,881	7,270	18,578	22,407
Total Current Liabilities	8,376	9,881	7,270	18,578	22,407
Total Long-term Debt	10,718	10,426	15,426	15,426	16,426
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	10,718	10,426	15,426	15,426	16,426
Total Provisions					
Total Liabilities	19,095	20,307	22,696	34,004	38,833
Shareholders Equity	15,607	19,678	24,416	28,728	33,872
Minority Interests	332	87	87	87	87
Total Equity	15,939	19,765	24,502	28,814	33,958

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	7.0%	18.4%	16.8%	15.0%	15.3%
Operating EBITDA Growth	16.0%	12.4%	8.1%	15.5%	16.3%
Operating EBITDA Margin	25.4%	24.1%	22.3%	22.4%	22.6%
Net Cash Per Share (Rs)	(35.17)	(31.82)	(50.93)	(43.38)	(43.32)
BVPS (Rs)	55.49	69.97	86.82	102.15	120.44
Gross Interest Cover	3.34	3.80	5.98	6.98	7.28
Effective Tax Rate	21.2%	32.1%	34.1%	28.3%	27.5%
Net Dividend Payout Ratio	4.8%	1.9%	3.4%	2.8%	2.4%
Accounts Receivables Days	20.21	31.90	35.83	35.24	38.17
Inventory Days	24.93	24.80	23.82	25.05	24.98
Accounts Payables Days					
ROIC (%)	17.7%	20.2%	20.7%	17.9%	20.1%
ROCE (%)	15.3%	17.9%	16.6%	16.3%	17.1%
Return On Average Assets	13.9%	14.9%	14.1%	13.1%	12.5%

Key Drivers					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Outstanding Orderbook (Rs m)	52,297	71,179	97,348	107,062	92,613
Orderbook Replenishment (Rs m)	34,583	45,908	58,229	46,583	27,950

SOURCES: INCRED RESEARCH, COMPANY REPORTS

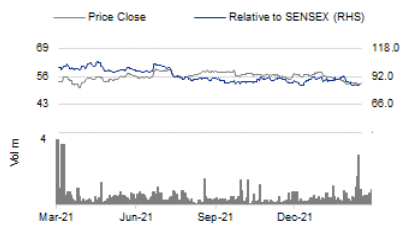
India

ADD (previously HOLD)

Consensus ratings*:	Buy 1	Hold 1	Sell 0
Current price:	Rs53		
Target price:	Rs63		
Previous target:	Rs61		
Up/downside:	18.9%		
InCred Research / Consensus:	19.1%		
Reuters:	IRBN.NS		
Bloomberg:	IRBINVIT IN		
Market cap:	US\$404m		
	Rs30,697m		
Average daily turnover:	US\$0.3m		
	Rs22.8m		
Current shares o/s:	580.5m		
Free float:	84.0%		
*Source: Bloomberg			

Key changes in this note

- Reduce FY22F EBITDA by 4%.
- Increase FY23F EBITDA by 13%.
- Roll forward TP to Mar 2023F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.3)	(3.0)	(1.1)
Relative (%)	(6.1)	(3.2)	(14.4)

Major shareholders	% held
IRB Infrastructure	16.0
Government of Singapore	7.8
Aditya Birla Sun Life Asset Mgmt	6.4

Analyst(s)



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IRB InvIT Fund

Stable earnings; fair valuation

- We feel FY22F yield is misleading and internal rate of return (IRR) is the key metric to track. We believe IRB InvIT trades at a reasonable IRR of 11%.
- We expect a 25% yoy decline in EBITDA in FY23F.
- Upgrade to Add (from Hold earlier) with a revised TP of Rs63 (Rs61 earlier).

FY22F yield is misleading, IRR is the key metric to track

Since its IPO (May 2017), IRB InvIT's share price has declined by 48%. However, adjusted for the payout, the share price has been flat since the IPO. The payout in FY21/ 9MFY22 was Rs8.5/ Rs6.4 per unit, respectively. Based on CMP (Rs53), this implies a healthy yield of 17% in FY22F. We believe the high FY22F yield is misleading as the concession period of two projects, contributing 55% to IRB InvIT's TTM Dec 21 EBITDA, is expected to end in Mar/ Jun 2022F, respectively. We believe IRB InvIT trades at a fair valuation with an IRR of 11% with a long-term traffic growth estimate of 3.5% p.a., in line with a 3.8% traffic CAGR over FY18-20.

We expect 25% yoy EBITDA decline in FY23F

While revenue in 1QFY21 declined 47% yoy, for rest of FY21, revenue excluding Pathankot -Amritsar project (PA: impacted by farmers' protests) grew 9% yoy. We estimate a 25% yoy decline in EBITDA in FY23F as two projects, which contributed 55% to TTM Dec 2021 EBITDA, are expected to end in Mar/Jun 2022F, respectively. However, we expect the negative impact to be offset to a large extent by a) 20% yoy EBITDA growth from other projects (ex-PA), and (b) Rs1.2bn EBITDA from PA. Based on CMP and InvIT regulations, IRB InvIT can have debt of up to Rs72bn vs. current net debt of Rs13bn. Thus, we estimate that further acquisitions of up to Rs59bn can be funded via debt, beyond which equity raising would be required.

Upgrade to Add with revised TP of Rs63 (from Rs61)

We reduce our EBITDA estimate for FY22F by 4% to factor in a delay in pick-up of toll collection at PA and increase our EBITDA estimate for FY23F by 13%. We forecast a) long-term traffic growth of 3.5% p.a., in line with the trend over FY18-20, and b) long-term Wholesale Price Index or WPI inflation of 5% p.a. Based on CMP, we believe the stock trades at an IRR of 11%. We roll forward our TP to Mar 2023F. We upgrade the stock to Add (from Hold earlier) with a revised discounted cash flow or DCF-based TP of Rs63 (Rs61 earlier). We have used a discount rate of 10.7% based on beta of 1x and target debt/equity of 1x. Our target price includes Rs5/unit payout estimated in FY23F. Key downside risks are a) an economic slowdown, and b) local events like construction of a parallel road which could negatively affect traffic on IRB InvIT's roads.

-Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	12,373	11,041	13,134	9,384	8,459
Operating EBITDA (Rsm)	10,295	9,385	10,462	7,804	6,837
Net Profit (Rsm)	1,727	1,808	1,344	2,046	2,421
Core EPS (Rs)	3.0	3.1	2.3	3.5	4.2
Core EPS Growth	(20.2%)	4.7%	(25.7%)	52.3%	18.3%
FD Core P/E (x)	17.77	16.97	22.84	15.00	12.68
DPS (Rs)	10.5	10.6	10.9	6.1	5.7
Dividend Yield	19.78%	20.08%	20.56%	11.51%	10.71%
EV/EBITDA (x)	4.44	4.67	4.19	5.37	6.13
P/FCFE (x)	4.31	5.26	4.86	6.99	9.34
Net Gearing	32.5%	30.2%	34.1%	30.3%	31.1%
P/BV (x)	0.66	0.71	0.80	0.83	0.85
ROE	3.5%	4.0%	3.3%	5.4%	6.6%
% Change In Core EPS Estimates			4.83%	18.15%	
InCred Research/Consensus EPS (x)			0.00	0.00	0.00

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Stable earnings, fair valuation

Measures for risk mitigation with traffic volume upside ►

IRB InvIT's assets have a blended traffic track record/residual life of 8.5 years/ 15.5 years, respectively. The company's toll rates are linked to inflation, protecting its assets from volatility in inflation/interest rates.

Since its IPO (May 2017), its share price has declined by 48% from Rs102 at the time of the IPO to Rs53 currently. However, during this period, the payout was Rs47.7/ unit. Adjusted for the payout, the share price has been flat since the IPO.

Figure 54: Salient features of IRB InvIT's toll road portfolio

Toll road	State	Awarded by	Concession start	Scope	Length (km)	Capex - road only (Rs bn)	Capex per Km constructed (Rs m)	Toll escalation
Surat- Dahisar	Maharashtra/ Gujarat	NHAI	20-Feb-09	4 To 6 Lanes	239	25.4	106.2	WPI
Bharuch- Surat	Gujarat	NHAI	2-Jan-07	2 to 4 or 6 Lanes	65	9.7	148.6	WPI
Jaipur- Deoli	Rajasthan	NHAI	14-Jun-10	2 to 4 Lanes	146	17.3	118.5	3%+40%*WPI
Tumkur- Chitradurg	Karnataka	NHAI	4-Jun-11	4 To 6 Lanes	114	11.4	100.2	3%+40%*WPI
Talegaon- Amravati	Maharashtra	NHAI	3-Sep-10	2 to 4 Lanes	67	8.9	133.8	3%+40%*WPI
Omalur-Salem-Namakkal	Tamil Nadu	NHAI	14-Aug-06	2 to 4 Lanes	69	3.1	44.8	WPI
Pathankot-Amritsar	Punjab	NHAI	31-Dec-10	2 to 4 Lanes	102	14.5	141.1	3%+40%*WPI
Total					802	90.2	112.5	

NOTE: WPI – WHOLESALE PRICE INDEX INFLATION
SOURCES: INCRED RESEARCH, COMPANY REPORTS

FY22F yield is misleading, IRR is key metric to track ►

The payout in FY21/ 9MFY22 was Rs8.5/Rs6.4 per unit, respectively. Based on CMP (Rs53), this implies a healthy yield of 17% in FY22F. We believe that FY22F yield is misleading as concession periods for Bharuch-Surat and Surat-Dahisar projects are expected to end in Mar/Jun 2022F, respectively. These two projects together contributed 55% to IRB InvIT's TTM Dec 2021 EBITDA.

We believe IRB InvIT trades at a fair valuation and an IRR of 11% with long-term traffic growth estimate of 3.5% p.a., in line with 3.8% traffic CAGR for its projects over FY18-20.

Steady FY21 despite 47% yoy revenue decline in 1QFY21 ►

EBITDA in FY21 declined 8.8% yoy due to the 19-day national lockdown in 1QFY21 and stoppage of toll collection at PA project from Oct 2020 to 16 Dec 2021. While revenue in 1QFY21 declined 47% yoy, revenue in rest of FY21 increased 2% yoy. Further, excluding PA project, which was impacted by farmers' protests, revenue grew 9% in Jul 2020-Mar 2021.

Figure 55: IRB InvIT's income statement

(Rs bn)	FY20	FY21	9MFY22
Sales	12.4	11.0	9.1
yoy growth %		(10.8)	17.3
EBITDA	10.3	9.4	7.3
yoy growth %		(8.8)	20.7
EBITDA margin %	83.2	85.0	80.5
Depreciation	6.9	6.1	5.1
Interest (external)	1.7	1.5	1.0
Tax	0.0	(0.0)	0.1
PAT	1.7	1.8	1.1
PAT + Depreciation	8.6	7.9	6.2
yoy growth %		(8.1)	12.4

SOURCES: INCRED RESEARCH, COMPANY REPORTS,

Figure 56: Project-wise revenue growth during FY21

(Rs bn)	1QFY21	yoy growth %	Balance FY21	yoy growth %
IRBSD (Surat- Dahisar)	0.4	(53)	3.0	5
IDAAIPL (Bharuch- Surat)	0.3	(46)	2.0	9
IJDTP (Jaipur- Deoli)	0.2	(35)	0.8	14
ITCTPL (Tumkur- Chitradurg)	0.3	(45)	2.0	12
ITATPL (Talegaon- Amravati)	0.1	(42)	0.6	15
MITPL (Omalur-Salem-Namakkal)	0.1	(45)	0.6	8
IPATRP (Pathankot-Amritsar)	0.2	(51)	0.3	(68)
Total	1.7	(47)	9.4	2
Total ex Pathankot Amritsar	1.5	(47)	9.1	9

SOURCES: INCRED RESEARCH, COMPANY REPORTS,

We estimate a 25% yoy decline in EBITDA in FY23F as two projects, which contributed 55% to TTM Dec 2021 EBITDA, are expected to end in Mar/Jun 2022, respectively. However, we expect the negative impact to be offset to a large extent

by a) 20% yoy EBITDA growth from other projects (ex-PA), and b) Rs1.2bn EBITDA from PA project.

Figure 57: Project-wise EBITDA over FY21-23F

(Rs bn)	FY21	FY22F	FY23F
Total	9.4	10.5	7.8
growth %		11	(25)
Surat Dahisar and Bharuch Surat	4.8	5.9	1.4
growth %		23	(76)
Pathankot Amritsar	0.2	0.3	1.2
growth %		49	328
Others	4.4	4.3	5.2
growth %		(3)	20

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Traffic in 3QFY22: Besides PA project, traffic was negatively impacted because of 1) Tumkur – Chitradurg traffic dipping 6% yoy due to floods in Nov 2021, and 2) Talegaon – Amravati (TA) traffic declining 14% yoy due to Nagpur metro rail construction, the impact of which will continue for around six months.

Figure 58: Net toll collection over FY20-3QFY22

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
IRBSD (Surat- Dahisar)	462	855	1,097	1,121	886	1,046	1,160
Growth vs FY20 %	(52)	(5)	9	17	(7)	16	15
IDAAIPL (Bharuch- Surat)	326	585	721	738	585	748	806
Growth vs FY20 %	(46)	1	10	16	(3)	30	23
IJDTP (Jaipur- Deoli)	171	254	298	297	225	285	319
Growth vs FY20 %	(35)	10	14	19	(15)	23	22
ITCTPL (Tumkur- Chitradurg)	347	584	698	705	512	679	707
Growth vs FY20 %	(45)	(1)	15	23	(19)	15	16
ITATPL (Talegaon- Amravati)	108	177	221	214	169	199	203
Growth vs FY20 %	(42)	5	20	18	(9)	18	10
MITPL (Omalur–Salem–Namakkal)	109	178	223	239	164	231	260
Growth vs FY20 %	(45)	(9)	8	25	(17)	18	26
IPATRP (Pathankot-Amritsar)	165	277	14	-	-	-	53
Growth vs FY20 %	(51)	(3)	(96)	(100)	(100)	(100)	(84)
Total	1,688	2,910	3,272	3,314	2,541	3,188	3,508
Growth vs FY20 %	(47)	(1)	1	8	(20)	8	8
Total ex PA	1,523	2,633	3,258	3,314	2,541	3,188	3,455
Growth vs FY20 %	(46)	(1)	12	19	(10)	20	18

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 59: Tariff revision for IRB InvIT's projects in FY22

	Tariff revision	Effective from
ITCTPL (Tumkur- Chitradurg)	3.8%	Apr-21
ITATPL (Talegaon- Amravati)	3.8%	Apr-21
IJDTP (Jaipur- Deoli)	3.8%	Apr-21
IPATRP (Pathankot-Amritsar)	3.8%	Apr-21
IDAAIPL (Bharuch- Surat)	7.9%	Jul-21
IRBSD (Surat- Dahisar)	1.3%	Sep-21
MITPL (Omalur–Salem–Namakkal)	7.9%	Sep-21

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Note: In a case against the National Highways Authority of India (NHAI) for extension of concession period by 1.4 years and a compensation of Rs4.2bn, in Jul 2021 the Arbitration Tribunal announced an award in favour of PA project. Upon receipt, IRB InvIT would appropriate the same towards IRB Infra while the extension of the concession period would accrue to IRB InvIT. We believe the extension is positive for IRB InvIT (Rs1.7/ share).

Healthy balance sheet provides room to raise debt to fund acquisitions ►

FY21 net debt/ EBITDA is 1.4x and EBIT/ interest is 2.2x. InvIT regulations allow debt of up to 70% of the value of its assets. Based on CMP and InvIT regulations, IRB InvIT can have debt of up to Rs72bn vs. current net debt of Rs13bn. Thus, we estimate that further acquisitions of up to Rs59bn can be funded via debt, beyond which equity raising would be required.

The decision to acquire assets from its sponsor (IRB Infra) will require a majority vote from IRB InvIT's shareholders (sponsor is not allowed to vote). Acquisitions may be funded by debt, equity and 10% of cash flow as the payout to investors is sacrosanct (90% of cash flow) and must not be affected by asset purchases.

Figure 60: Balance sheet

(Rs bn)	FY20	FY21	yoy Change
Equity including sub-debt	46.3	43.5	(2.7)
Net external Debt	15.0	13.1	(1.9)
NHAI premium payable	57.3	55.4	(1.9)
Total Liabilities	118.6	112.1	
Net Fixed Assets	60.6	55.7	(4.9)
Premium to NHAI	61.9	59.9	(1.9)
NWC	(3.9)	(3.6)	0.3
Total Assets	118.6	112.1	

SOURCES: INCRED RESEARCH, COMPANY REPORTS,

Figure 61: Key ratios

(x)	FY20	FY21
Net Debt (external) / EBITDA	1.5	1.4
EBIT/ Interest (external)	2.0	2.2
Net Debt (external) / Equity	0.3	0.3
RoCE %	6.1	6.3
RoE %	3.7	4.2
Payout per unit (Rs)	10.0	8.5
PBV		0.7
PE		17.0
EV/EBITDA		4.7

SOURCES: INCRED RESEARCH, COMPANY REPORTS,

Roll forward our TP to Mar 2023F; upgrade to Add (from Hold earlier) with a TP of Rs63 (Rs61 earlier) ▶

We reduce our EBITDA estimate for FY22F by 4% to factor in a delay in pick-up of toll collection at PA project and increase our EBITDA estimate for FY23F by 13%.

Figure 62: Earnings revision

(Rs m)	FY22F		FY23F		FY24F
	Old	New	Old	New	
Sales	13,929	13,134	9,089	9,384	8,459
% change		(6)		3	
EBITDA	10,954	10,462	6,917	7,804	6,837
% change		(4)		13	
PAT	1,282	1,344	1,782	2,046	2,421
% change		5		15	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

We forecast a) long-term traffic growth of 3.5% p.a., in line with the trend over FY18-20, and b) long-term WPI inflation of 5% p.a. Based on CMP, we believe the stock trades at an IRR of 11%. We roll forward our TP to Mar 2023F. We upgrade the stock to Add (from Hold earlier) with a revised DCF-based TP of Rs63 (Rs61 earlier). We have used a discount rate of 10.7%.

Figure 63: Our target EV (Mar 2023F) for IRB InvIT's assets

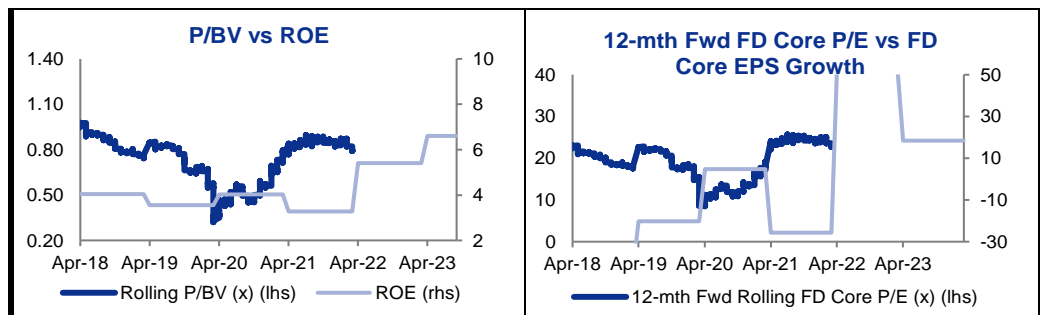
	Target EV Mar 23F (Rs. Bn)	EV/ EBITDA (x)	Remaining Life (years)
Surat- Dahisar	-	-	0.3
Bharuch- Surat	-	-	0.2
Jaipur- Deoli	14.0	13.6	18.5
Tumkur- Chitradurg	6.5	15.9	15.5
Talegaon- Amravati	7.9	9.3	15.2
Omalur-Salem-Namakkal	2.7	3.2	4.7
Pathankot-Amritsar	12.7	10.5	14.6
Total	43.9	7.6	15.5

SOURCES: INCRED RESEARCH, COMPANY REPORTS,

Figure 64: DCF-based target price

Particulars	Rs (bn)
Target EV (Mar 23F)	43.9
Net Debt (FY23F)	11.2
Add cash flow (FY23F)	3.5
Equity value	36.3
Target Price (Rs/share)	63

SOURCES: INCRED RESEARCH, COMPANY REPORTS,

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	12,373	11,041	13,134	9,384	8,459
Gross Profit	10,295	9,385	10,462	7,804	6,837
Operating EBITDA	10,295	9,385	10,462	7,804	6,837
Depreciation And Amortisation	(6,853)	(6,081)	(7,025)	(3,727)	(2,702)
Operating EBIT	3,442	3,304	3,436	4,077	4,135
Financial Income/(Expense)	(1,636)	(1,454)	(1,891)	(2,024)	(1,624)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	(78)	(42)			
Profit Before Tax (pre-EI)	1,728	1,808	1,546	2,053	2,511
Exceptional Items					
Pre-tax Profit	1,728	1,808	1,546	2,053	2,511
Taxation	(1)		(201)	(7)	(90)
Exceptional Income - post-tax					
Profit After Tax	1,727	1,808	1,344	2,046	2,421
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,727	1,808	1,344	2,046	2,421
Recurring Net Profit	1,727	1,808	1,344	2,046	2,421
Fully Diluted Recurring Net Profit	1,727	1,808	1,344	2,046	2,421

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	10,295	9,385	10,462	7,804	6,837
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,135	(284)		854	
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,714)	(1,496)	(1,891)	(2,024)	(1,624)
Tax Paid	(1)		(201)	(7)	(90)
Cashflow From Operations	9,715	7,605	8,369	6,628	5,123
Capex					
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,993)	(1,933)	(2,058)	(2,238)	(1,837)
Cash Flow From Investing	(1,993)	(1,933)	(2,058)	(2,238)	(1,837)
Debt Raised/(repaid)	(594)	165			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(6,071)	(6,164)	(6,312)	(3,535)	(3,287)
Preferred Dividends					
Other Financing Cashflow	203	2,377		400	
Cash Flow From Financing	(6,462)	(3,621)	(6,312)	(3,134)	(3,287)
Total Cash Generated	1,260	2,050		1,255	
Free Cashflow To Equity	7,128	5,837	6,312	4,389	3,287
Free Cashflow To Firm	9,358	7,126	8,202	6,413	4,911

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	1,907	3,958	3,958	5,849	5,849
Total Debtors					
Inventories					
Total Other Current Assets	1,156	1,156	1,156	302	302
Total Current Assets	3,063	5,114	5,114	6,150	6,150
Fixed Assets	65,144	60,251	55,283	52,758	51,893
Total Investments					
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	65,144	60,251	55,283	52,758	51,893
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	5,024	4,740	4,740	4,740	4,740
Total Current Liabilities	5,024	4,740	4,740	4,740	4,740
Total Long-term Debt	16,929	17,094	17,094	17,094	17,094
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	16,929	17,094	17,094	17,094	17,094
Total Provisions					
Total Liabilities	21,953	21,834	21,834	21,834	21,834
Shareholders Equity	46,254	43,531	38,563	37,075	36,209
Minority Interests					
Total Equity	46,254	43,531	38,563	37,075	36,209

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	3.5%	(10.8%)	19.0%	(28.6%)	(9.9%)
Operating EBITDA Growth	3.7%	(8.8%)	11.5%	(25.4%)	(12.4%)
Operating EBITDA Margin	83.2%	85.0%	79.7%	83.2%	80.8%
Net Cash Per Share (Rs)	(25.88)	(22.63)	(22.63)	(19.37)	(19.37)
BVPS (Rs)	79.68	74.99	66.43	63.87	62.38
Gross Interest Cover	2.10	2.27	1.82	2.01	2.55
Effective Tax Rate	0.1%		13.0%	0.3%	3.6%
Net Dividend Payout Ratio	351.5%	340.8%	469.6%	172.7%	135.8%
Accounts Receivables Days					
Inventory Days					
Accounts Payables Days					
ROIC (%)	5.1%	5.4%	6.1%	7.9%	8.6%
ROCE (%)	5.2%	5.3%	5.9%	7.4%	7.7%
Return On Average Assets	4.8%	4.9%	5.1%	6.8%	6.9%

Key Drivers					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Toll revenue grth (%)	3.5%	(10.8%)	19.0%	(28.6%)	(9.9%)
EBITDA grth (%)	3.7%	(8.8%)	11.5%	(25.4%)	(12.4%)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

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.