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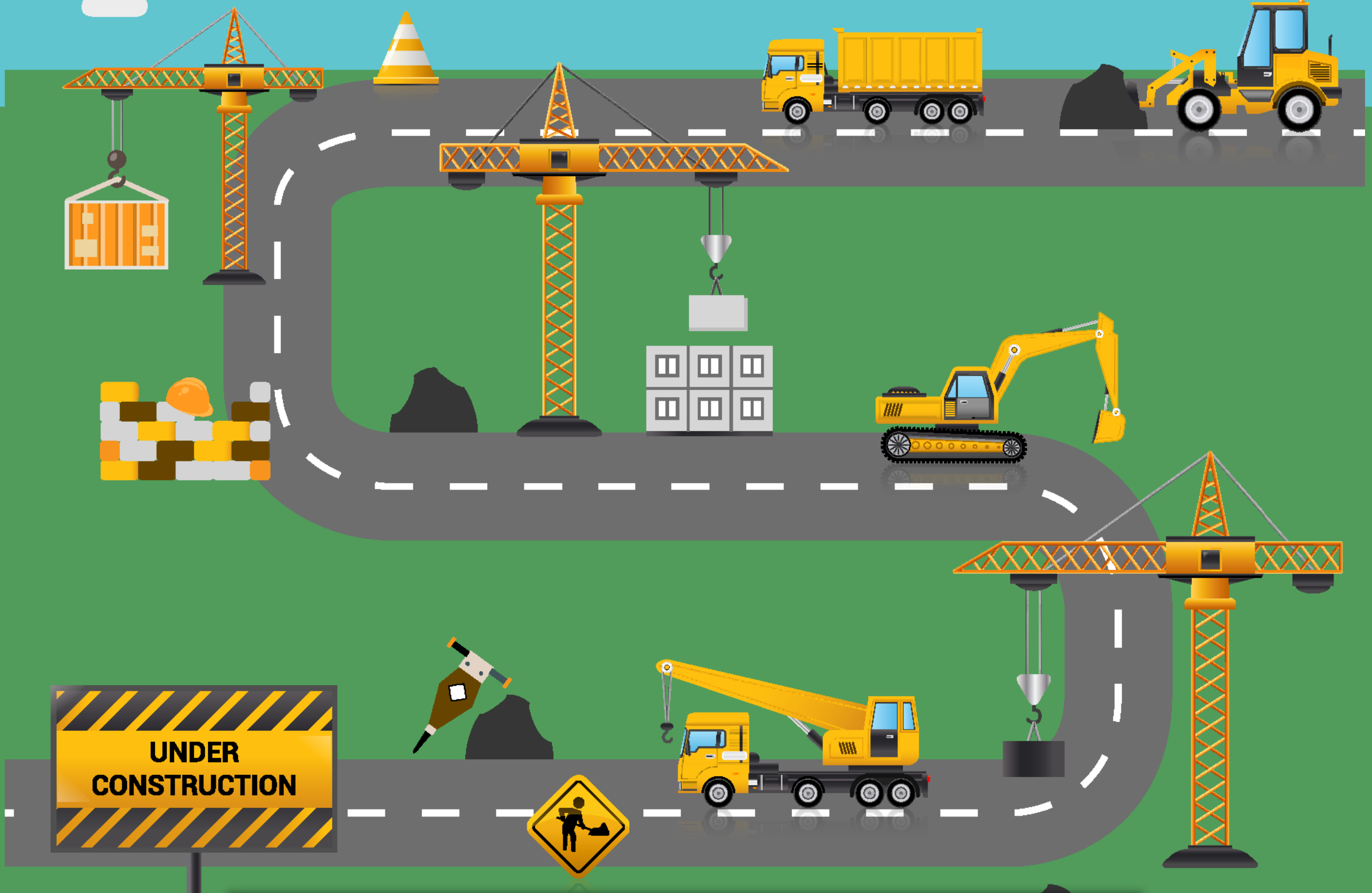

Top Conviction Ideas: Infra-Road & Others

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Infra-Road & Others: Q2FY26 Review

Slower Execution Impacted Performance; Awarding Activity and Project Execution to Pick Up in Q4FY26

Financial Performance

- **Road Infra Misses Estimates:** During the quarter, road infrastructure companies under our coverage reported Revenue and EBITDA declines of 13%/17%, respectively, against our expectation of 9%/1%. The performance deviation was primarily due to slow execution and delay in receiving Appointed Dates of projects. Additionally, the revenue of KNR Constructions in the previous year included arbitration claims, leading to a wider gap.

- **EBITDA Margins:** In Q2FY26, our road infrastructure companies reported EBITDA margins of 12.4% vs. our estimate of 13.1%. The decrease was mainly due to the higher costs and slower execution.

Company-wise Performance

- **Road Sector Performance:** GR Infra, HG Infra, J Kumar Infra reported revenue growth on a YoY basis but below our expectation owing to slower execution on the back of the extended monsoon and non-receipt of the appointed date. The companies also witnessed a drop in margins. GR Infra reported PAT, which was higher YoY, due to dividends received from InvIT. PNC Infratech and KNR Constructions' revenue growth fell short of expectations owing to a delay in project execution.

- **Non-road Sector Performance:** KEC and Kalpataru Projects delivered a positive overall performance, supported by the execution of high-margin T&D projects. Ahluwalia Contracts posted revenue growth with the robust execution of a large order book. RITES reported strong revenue owing to growth in the consultancy and export segments. PSP Projects reported revenue growth as execution improved.

Infra-Road & Others: Q2FY26 Review

Short Term Outlook

- **Sluggish Project Awarding**: ICRA expects the road award by MoRTH to stand at 9,000 to 9,500 km in FY26, slightly higher than the estimated 8,500 km for FY25. A recent announcement for the construction of 25 Greenfield expressways, spanning 10,000 km and costing Rs 6 Lc Cr, including BoT projects of Rs 1.3 Lc Cr. Tighter bidding norms have been introduced by MoRTH—such as performance securities—to curb the aggressive low bidding. Most new orders are now expected under developer models, favouring financially strong players.
- **Drop in Construction of Highways:** In Q2FY26, the road infrastructure sector reported modest performance, with projects execution remaining subdued as construction activity declined to 644 km, down from 802 km in the corresponding period last year, mainly due to very subdued project awarding activity by the authorities over the past 2-2.5 years and widespread intense and prolonged monsoon across nation this year. NHAI has set an ambitious target of awarding 6,300 km length of new projects for FY26, which is expected to generate substantial new business for the industry players going forward. An improvement in road project awarding may help fuel an uptick in construction.
- **Toll Collection:** Total national highway toll collections are projected to surpass Rs 80,000 Cr for the first time in FY26, up from Rs 72,900 Cr in FY25. The number of toll users increased by 16.2% in FY26. The toll rate growth is likely to remain at 3% to 4% in FY26. At the same time, the Ministry has also asked the NITI Aayog to review the 30-year-old toll collection rules for national highways, aimed at creating a fairer pricing system to make the model more acceptable to all the stakeholders.
- **Focus on Diversification:** Companies have strategically diversified into Railways, Metros, Solar, Power Transmission, Water Projects, and Tunnelling to mitigate dependency on road projects and enhance margin profiles. Most companies expect 25–30% of revenue contribution from these segments going forward.
- **Pressure on Margins:** Margins remain under pressure due to the slow execution of projects. Amidst aggressive bidding, companies with stronger balance sheets, such as GRIL, PNC, and KNR, are better placed.
- **Favourable Tailwinds in T&D and Civil Business**: Both KEC and KPIL continue to focus aggressively on domestic and international T&D as well as Civil segment opportunities. KEC has a tender pipeline of over Rs 65,000 Cr with an order book of over Rs 29,000 Cr in the T&D business and Rs 10,000 Cr in the Civil business. KPIL has a tender pipeline of over Rs 1,50,000 Cr with an order book of Rs 26,275 Cr in T&D business and Rs 18,758 Cr in Civil business.

Infra-Road & Others: Q2FY26 Review

Long Term Outlook

- **Pace of Road Construction to Gain Momentum:** As NHAI launched a huge new projects pipeline comprising over 120 projects to be implemented on EPC, HAM, DBFOT formats with an estimated capital cost of over Rs 3 Lc Cr, the whole industry is looking for speedy conversion of this pipeline into awarding, for turnaround of the sector and to create a strong execution visibility from FY27 onwards.
- **Government Support through Increase in Capex:** In the Union Budget 2025-26, Capex for FY25 has been revised to Rs 10.2 Lc Cr, and for FY26 it has been increased to Rs 11.2 Lc Cr. A Rs 1.5 Lc Cr outlay has been proposed for 50-year interest-free loans to states for infrastructure projects, with each infrastructure ministry required to develop a three-year pipeline of PPP projects. The government will launch a National Geospatial Mission to modernise land records and develop spatial data, enhancing land governance and planning. A new Digital Network platform will also streamline export-related documentation and trade processes.
- **Road Construction Companies - Passing through Tough Terrain:** Road construction companies have faced a challenging operating environment over the past 9–12 months, driven by slower project awarding by authorities, delays in the receipt of appointed dates, prolonged monsoon conditions that hampered execution, and other operational hurdles. Despite these headwinds, the project pipeline remains robust. In light of these developments, we revise our sector outlook to cautiously optimistic from positive earlier. The near-term focus now centres on the pace of new order inflows and the timely receipt of appointed dates for already awarded projects.
- **Favourable Tailwinds in T&D and Civil Business:** Both KEC and KPIL continue to sharply focus on both domestic and international T&D orders as they foresee notable opportunities. With the heightened government thrust on renewables and the increase in power demand, business growth is assured. Going forward, KPIL expects T&D and Civil business to be a major revenue contributor, and KEC's management foresees the T&D business being driven by opportunities in India, Abu Dhabi, and Saudi Arabia. Additionally, the Power Transmission plan provides visibility of the massive investment opportunity of over Rs 9 Lc Cr of the transmission sector till the year 2032.
- **We remain cautiously optimistic about the growth prospects of the road sector and the companies operating within it. However, faster project awarding and accelerated land acquisition could significantly improve the outlook going forward. We remain positive for non-road infra companies from a medium to long-term perspective.**

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Short and Medium-term Outlook

Short Term

Slow execution and a low executable order book may impact revenue growth.

Delays in appointed dates may affect revenue growth.

Medium to Long Term

Better Order Inflow: Awarding is expected to increase in H2FY26

Govt. Support: Increase in Capex through various initiatives to support growth in the sector

Transmission sector to witness better tendering and order intake

Key Monitorable - Appointed date, Order Inflow, and Execution

Top Conviction Ideas: Non-Road

Stock	Reco.	TP*	Recommendation Rationale
Kalpataru Projects International Ltd	BUY	Rs 1,475*	✓ **Robust Order Book to Support Revenue Growth:** As of 30th September 2025, the company's order book stands at Rs 64,682 Cr, with 40% from T&D, 29% from B&F, 13% from Water, 9% from Oil & Gas, 5% from Railways, and 4% from Urban Infra. Backed by a strong execution track record and expanding opportunities across all segments, the company is positioned for steady revenue growth, projecting a 20% CAGR from FY25 to FY27E. ✓ **New Order Inflow to Sustain Growth:** The YTD order inflow stood at Rs 14,591 Cr. Management expects full-year order inflow of over Rs 25,000 Cr, with a strategic focus on the T&D and B&F segments. It highlighted strong opportunities across power transmission and distribution, solar EPC, residential and commercial buildings, oil and gas pipeline networks, underground and tunnelling works, urban mobility, and select international civil projects. ✓ **T&D Business to be Major Growth Contributor:** T&D business remains highly optimistic across domestic and overseas markets, supported by a strong tender pipeline of over Rs 1,50,000 Cr for the next 12–18 months. The company is also competitively positioned in tenders worth Rs 5,000 Cr, primarily in the international T&D segment. High-margin T&D projects are expected to remain the key growth driver. We expect EBITDA margin expansion and PAT growth to deliver a CAGR of 25% and 47%, respectively, over FY25–27E, driven by robust execution and a healthy order pipeline.

*** Note: Target Price is based on our Q2FY26 Result Update Report**

Top Conviction Ideas: Non-Road

Stock	Reco.	TP*	Recommendation Rationale
KEC International Ltd	BUY	Rs 1,030*	✓ **Healthy Order Backlog Ensuring Revenue Visibility:** As of 30th September 2025, the company's order book stood at Rs 39,325 Cr. Additionally, it holds an L1 position in projects worth Rs 5,000 Cr, primarily in the T&D segment, offering strong revenue visibility over the next 18–24 months. Backed by its proven execution capabilities and the government's continued emphasis on infrastructure development, KEC remains well-placed to deliver consistent growth, projecting a 16% CAGR between FY25 and FY27E. ✓ **Encouraging Pipeline of Tenders Enhances Order Inflow Prospects:** A robust tender pipeline of Rs 1,80,000 Cr provides strong visibility for sustained order inflows in the coming quarters. Of this, Rs 22,000–23,000 Cr pertains to domestic T&D, Rs 38,000–42,000 Cr to international T&D, and the remainder to non-T&D segments. For FY26, the company has targeted order inflows of Rs 30,000 Cr, of which Rs 16,050 Cr has already been secured, reflecting continued traction and steady execution momentum. ✓ **Strengthening Margins Leading to Better Bottom-line Performance:** Despite challenges such as labour shortages and delays in receivables from the water segment, EBITDA margins improved, driven by strong execution in international T&D projects and a higher share of margin-accretive assignments. Margins are expected to rise to 9% by FY27, with EBITDA projected to deliver a 32% CAGR over FY25–27E.

*** Note: Target Price is based on our Q2FY26 Result Update Report***

Top Conviction Ideas: Non-Road

Stock	Reco.	TP*	Recommendation Rationale
Ahluwalia Contracts India Ltd	BUY	Rs 1,085*	✓ **Robust Order Book to Drive Growth:** The company has an order book of Rs 18,057 Cr (as of 30th September, 2025) and a YTD order inflow of Rs 4,374 Cr. The order book is primarily composed of Hospital at 9% (Rs 1,619 Cr), Commercial at 20.6% (Rs 3,711 Cr), Institutional at 3.7% (Rs 661 Cr), Residential at 43.8% (Rs 7,918 Cr), Infrastructure at 22% (Rs 3,997 Cr), and Hotel at 0.7% (Rs 150 Cr). By geography, East constitutes 15%, North 50%, West 30%, South 4%, and Overseas 1%. The robust order book provides revenue visibility for the next 2–2.5 years. Hence, ACIL is expected to deliver a strong revenue growth of 19% CAGR over FY25–FY27E and is likely to post improved margins with better execution. ✓ **Strong Order Inflow:** The company reported YTD order inflows of Rs 4,374 Cr and holds L1 status in 2 projects worth Rs 1,620 Cr. For FY26, management has guided for order inflows of over Rs 8,000 Cr. The bidding pipeline stood at Rs 6,000 Cr for the private segment. It aims to keep 50–60% of its order book weighted toward private sector projects, reflecting its strategic focus on private capex, where it sees stronger visibility and more scalable opportunities. ✓ **Improvement in EBITDA Margins:** During Q2FY26, the company reported a sharp improvement in EBITDA margins to 10.9% from 7.3% in the previous year on the back of better execution. With a large executable order book and better operating conditions in H2FY26, margins are expected to sustain, especially with the pickup of the CST project in Mumbai and other large projects. Double-digit margins are expected from H2FY26. We forecast EBITDA and PAT to grow at a 35% and 34% CAGR, respectively, over FY25–27E.

Note: Target Price is based on our Q2FY26 Result Update Report

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