

# PNC Infratech | BUY

## Asset sale to release sizeable growth capital

PNC Infratech (PNC) has signed definitive agreement with Highways Infrastructure Trust (KKR) for sale of 12 road assets at Enterprise value of INR 90bn. Equity value of the deal stands at INR 29bn, implying P/B of 1.7x. Monetization proceeds will be used to fund pending equity commitment and for future growth. Details are mentioned below:-

- PNC has entered into definitive agreement with Highways Investment Trust (KKR) for sale of 12 road assets. It includes 11 HAM assets and 1 BOT Toll asset.
- Enterprise Value of the sale is INR 90bn and the implied equity value is INR 29bn (including earn-outs). Implied valuation multiple is 1.7x on equity invested of INR 17.4bn.
- Of the above 12 assets, 7 HAMs and 1 BOT (Toll) are operational and the balance 4 HAMs are under construction (construction likely to be completed by Mar-24).
- We expect the sale proceeds to come in two or more tranches depending on the COD of the under construction assets. Since the deal valuation also includes earnouts, some part of the consideration may also come with a lag.
- KPMG India Services LLP acted as the exclusive financial advisor while Shardul Amarchand Mangaldas & Co acted as the legal advisor to the company.
- PNC had guided for the asset sale plans to be firmed up within FY24 and signing of this definitive agreement with a credible buyer like KKR is a big positive for the stock.
- The valuation multiple of 1.7x for the sale is higher than the past transactions in the industry (1.3x-1.55x) and is also sharply above our estimates.
- Transaction releases sizeable cash flow of INR 29bn for future growth. We also note that PNC has recently settled claims worth INR 7.7bn (pre-tax) with NHAH which should yield further cash flow.
- For PNC's current portfolio of HAM assets, total equity requirement stands at INR 29.4bn. Of this, PNC has already invested INR 18.4bn till Sept-23 and balance INR 11bn is to be invested by Mar-26E.
- **Maintain Buy with revised price target of INR 515:** Deal valuation is significantly above our estimates. We valued the assets at 1x P/B against deal valuation of 1.7x P/B with our lower valuation also reflecting uncertainty in timing/delays of asset sale. Based on the announced deal, we have upgraded our asset valuation by INR 55/share to INR 140/share. We continue to value other HAM assets at 1x P/B and BOT assets at 0.7x P/B. In addition, there is also room for a re-rating of the EPC business (valued at 13x FY25E EPS currently in SOTP) given the sizeable cash inflow from deal and claim settlement which will provide growth capital and also improve the balance sheet. Stock currently trades at 13.5x FY25E EPS (without adjusting for any value of assets). We value PNC on SoTP basis to arrive at a revised price target of INR 515 (increased from INR 460).



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	515
Upside/(Downside)	33.0%
Previous Price Target	460
Change	11.9%

### Key Data – PNCL IN

Current Market Price	INR387
Market cap (bn)	INR99.3/US\$1.2
Free Float	44%
Shares in issue (mn)	256.5
Diluted share (mn)	256.5
3-mon avg daily val (mn)	INR185.2/US\$2.2
52-week range	406/261
Sensex/Nifty	73,328/22,097
INR/US\$	82.9

### Price Performance

%	1M	6M	12M
Absolute	12.7	12.2	17.2
Relative*	9.9	1.0	-3.7

\* To the BSE Sensex

### Financial Summary

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Sales	49,254	62,228	70,608	77,218	88,801
Sales Growth (%)	3.3	26.3	13.5	9.4	15.0
EBITDA	6,728	8,339	9,539	10,266	11,812
EBITDA Margin (%)	13.7	13.4	13.5	13.3	13.3
Adjusted Net Profit	3,619	4,926	6,115	6,413	7,363
Diluted EPS (INR)	14.1	19.2	23.8	25.0	28.7
Diluted EPS Growth (%)	10.2	36.1	24.1	4.9	14.8
ROIC (%)	17.4	21.0	19.5	17.3	16.6
ROE (%)	13.3	15.8	16.8	15.1	15.0
P/E (x)	11.9	15.1	11.4	15.5	13.5
P/B (x)	1.5	2.2	1.8	2.2	1.9
EV/EBITDA (x)	5.7	8.6	7.4	9.7	8.6
Dividend Yield (%)	0.3	0.2	0.3	0.2	0.3

Source: Company data, JM Financial. Note: Valuations as of 15/Jan/2024

JM Financial Institutional Securities Limited

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Asset monetization deal details**

INR mn	at fully invested stage
<b>Valuation (Enterprise value) – including earnouts</b>	<b>90,057</b>
Less: Net Debt in 12 assets (implied)	61,037
<b>Equity value (given in the press release)</b>	<b>29,020</b>
Equity invested in 12 assets	17,400
<b>P/Bx</b>	<b>1.67</b>

Source: Company, JM Financial

**Exhibit 2. Comparison of Valuation with other deals in the sector**

Companies	Buyer	Asset details	Timeline	Equity value (INR bn)	Investments (INR bn)	Valuation (P/Bx)	Comments
KNR Constructions	Cube Highways	3 HAM assets	Jan-22	4.9	3.7	1.34	49% stake transferred during the construction stage while balance after PCOD.
Dilip Buildcon	Shrem Group	10 HAM assets	Mar-22	23.5	15.0	1.56	Transferred to Shrem InVIT
Dilip Buildcon	Cube Highways	3 HAM assets	Jan-22	4.4	3.0	1.46	
Welspun Enterprises	Actis	6 HAM & 1 BOT toll asset	Dec-22	24.6	17.2	1.43	Deal completed in FY23.
HG Infra Engineering	Highways Infrastructure Trust (KKR)	4 HAM assets	May-23	5.3	3.4	1.55	Deal signed; expected to be completed in FY24.
PNC Infratech	Cube Highways	Ghaziabad Aligarh (BOT)	May-22	2.8	4.4	0.62	Investments include support loans and EPC dues
<b>PNC Infratech</b>	<b>Highways Infrastructure Trust (KKR)</b>	<b>11 HAM &amp; 1 BOT toll</b>	<b>Jan-24</b>	<b>29.0</b>	<b>17.4</b>	<b>1.67</b>	<b>Definitive agreement signed; Investments include support loans</b>

Source: Company, JM Financial

**Exhibit 3. Details of assets monetized**

Projects (INR mn)	Awarding authority	State	Length (km)	Model	Status	TPC/BPC	Total Equity*
Bareilly Almora	UPSHA	UP	54	BOT Toll	COD	6,045	2,711
Dausa-Kauthun	NHAI	Rajasthan	83	HAM	COD	8,810	650
Aligarh Kanpur	NHAI	UP	45	HAM	COD	11,970	1,250
Jhansi-Khajurao II	NHAI	UP	85	HAM	COD	13,100	1,040
Chitradurga Devanagere	NHAI	Karnataka	73	HAM	COD	14,340	1,070
Jhansi-Khajurao I	NHAI	UP	76	HAM	PCOD	14,100	1,280
Chakeri Allahabad	NHAI	UP	145	HAM	PCOD	21,590	1,870
Mitrasen Kanpur	NHAI	UP	61	HAM	PCOD	20,520	1,820
Challakere Hariyur	NHAI	Karnataka	56	HAM	UC	11,570	1,270
Jagdishpur Faizabad	NHAI	UP	60	HAM	UC	15,300	1,320
Unnao Lalgunj	NHAI	UP	70	HAM	UC	16,020	1,700
Meerut Najibabad	NHAI	UP	54	HAM	UC	14,120	1,420
<b>Total</b>			<b>862</b>			<b>167,485</b>	<b>17,401</b>

Source: Company, JM Financial; \*: including quasi equity; UC: Under construction

**Exhibit 4. SOTP based price target of INR 515**

INR mn	Valuation methodology	Value driver	Multiple (x)	Valuation	INR/share
EPC business	PEX FY25E PAT	7,363	13.0	96,046	374
12 assets in deal	Deal valuation	17,400	1.67	29,020	113
Remaining HAM assets	P/B	4,683	1.0	4,683	18
Remaining BOT assets	P/B	3,205	0.7	2,244	9
<b>Total</b>				<b>102,972</b>	<b>515</b>

Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Sales	49,254	62,228	70,608	77,218	88,801	
Sales Growth	3.3%	26.3%	13.5%	9.4%	15.0%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>49,254</b>	<b>62,228</b>	<b>70,608</b>	<b>77,218</b>	<b>88,801</b>	
Cost of Goods Sold/Op. Exp	36,844	47,459	52,624	57,697	66,272	
Personnel Cost	2,791	3,420	3,359	3,695	4,323	
Other Expenses	2,892	3,010	5,087	5,560	6,394	
<b>EBITDA</b>	<b>6,728</b>	<b>8,339</b>	<b>9,539</b>	<b>10,266</b>	<b>11,812</b>	
EBITDA Margin	13.7%	13.4%	13.5%	13.3%	13.3%	
EBITDA Growth	2.7%	24.0%	14.4%	7.6%	15.1%	
Deprn. & Amort.	1,124	1,299	1,100	1,110	1,339	
EBIT	5,604	7,040	8,439	9,156	10,474	
Other Income	752	542	383	255	241	
Finance Cost	771	801	638	796	875	
PBT before Excep. & Forex	5,585	6,781	8,184	8,615	9,840	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	5,585	6,781	8,184	8,615	9,840	
Taxes	1,966	1,855	2,069	2,202	2,477	
Extraordinary Inc./Loss(-)	0	-447	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	3,619	4,478	6,115	6,413	7,363	
<b>Adjusted Net Profit</b>	<b>3,619</b>	<b>4,926</b>	<b>6,115</b>	<b>6,413</b>	<b>7,363</b>	
Net Margin	7.3%	7.9%	8.7%	8.3%	8.3%	
Diluted Share Cap. (mn)	256.5	256.5	256.5	256.5	256.5	
<b>Diluted EPS (INR)</b>	<b>14.1</b>	<b>19.2</b>	<b>23.8</b>	<b>25.0</b>	<b>28.7</b>	
Diluted EPS Growth	10.2%	36.1%	24.1%	4.9%	14.8%	
Total Dividend + Tax	128	128	214	224	258	
Dividend Per Share (INR)	0.5	0.5	0.8	0.9	1.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Profit before Tax	5,585	6,334	8,184	8,615	9,840	
Deprn. & Amort.	1,124	1,299	1,100	1,110	1,339	
Net Interest Exp. / Inc. (-)	771	801	638	796	875	
Inc (-) / Dec in WCap.	-1,395	-4,065	-9,240	695	-2,432	
Others	0	0	0	0	0	
Taxes Paid	-1,998	-1,771	-2,166	-2,202	-2,477	
<b>Operating Cash Flow</b>	<b>4,087</b>	<b>2,598</b>	<b>-1,484</b>	<b>9,014</b>	<b>7,145</b>	
Capex	-1,820	-164	-439	-1,000	-1,800	
Free Cash Flow	2,268	2,435	-1,923	8,014	5,345	
Inc (-) / Dec in Investments	-733	-1,247	-1,635	-6,900	-5,418	
Others	-842	-1,128	516	0	0	
<b>Investing Cash Flow</b>	<b>-3,395</b>	<b>-2,538</b>	<b>-1,558</b>	<b>-7,900</b>	<b>-7,218</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-128	-128	-214	-224	-258	
Inc / Dec (-) in Loans	727	-1,835	2,342	-1,500	1,500	
Others	-1,008	-503	-629	-796	-875	
<b>Financing Cash Flow</b>	<b>-410</b>	<b>-2,466</b>	<b>1,499</b>	<b>-2,520</b>	<b>367</b>	
<b>Inc / Dec (-) in Cash</b>	<b>282</b>	<b>-2,406</b>	<b>-1,543</b>	<b>-1,406</b>	<b>294</b>	
Opening Cash Balance	7,401	7,683	5,277	3,734	2,328	
Closing Cash Balance	7,683	5,277	3,734	2,328	2,622	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Shareholders' Fund	29,085	33,402	39,416	45,604	52,710	
Share Capital	513	513	513	513	513	
Reserves & Surplus	28,572	32,889	38,903	45,091	52,197	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	3,992	2,158	4,500	3,000	4,500	
Def. Tax Liab. / Assets (-)	0	-152	-240	-240	-240	
<b>Total - Equity &amp; Liab.</b>	<b>33,077</b>	<b>35,408</b>	<b>43,676</b>	<b>48,365</b>	<b>56,970</b>	
Net Fixed Assets	6,592	5,894	5,345	5,235	5,697	
Gross Fixed Assets	11,265	11,463	11,902	12,902	14,702	
Intangible Assets	0	0	0	0	0	
Less: Deprn. & Amort.	4,707	5,569	6,556	7,666	9,005	
Capital WIP	34	0	0	0	0	
Investments	8,470	8,712	10,347	17,247	22,665	
Current Assets	33,509	38,264	44,773	43,951	49,005	
Inventories	3,536	4,808	7,644	8,160	9,260	
Sundry Debtors	8,392	12,728	19,055	18,617	21,166	
Cash & Bank Balances	7,683	5,277	3,734	2,328	2,622	
Loans & Advances	6,831	7,959	7,442	7,442	7,442	
Other Current Assets	7,067	7,493	6,897	7,404	8,515	
Current Liab. & Prov.	15,493	17,461	16,789	18,069	20,397	
Current Liabilities	7,194	5,076	6,790	6,797	7,263	
Provisions & Others	8,299	12,386	9,999	11,272	13,134	
Net Current Assets	18,016	20,803	27,983	25,882	28,608	
<b>Total - Assets</b>	<b>33,077</b>	<b>35,408</b>	<b>43,676</b>	<b>48,365</b>	<b>56,970</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Margin	7.3%	7.9%	8.7%	8.3%	8.3%	
Asset Turnover (x)	1.6	1.8	1.8	1.7	1.7	
Leverage Factor (x)	1.1	1.1	1.1	1.1	1.1	
RoE	13.3%	15.8%	16.8%	15.1%	15.0%	

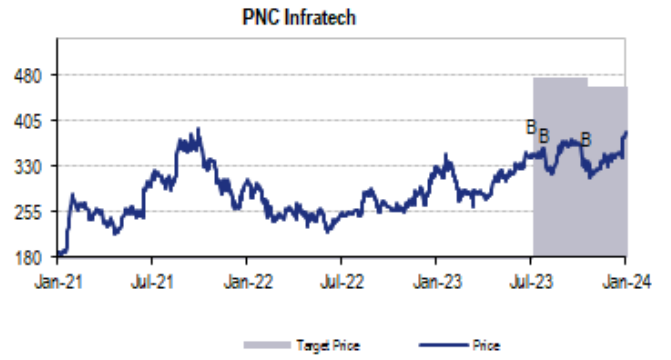
Key Ratios						
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
BV/Share (INR)	113.4	130.2	153.6	177.8	205.5	
ROIC	17.4%	21.0%	19.5%	17.3%	16.6%	
ROE	13.3%	15.8%	16.8%	15.1%	15.0%	
Net Debt/Equity (x)	-0.2	-0.1	0.0	0.0	0.0	
P/E (x)	11.9	15.1	11.4	15.5	13.5	
P/B (x)	1.5	2.2	1.8	2.2	1.9	
EV/EBITDA (x)	5.7	8.6	7.4	9.7	8.6	
EV/Sales (x)	0.8	1.1	1.0	1.3	1.1	
Debtor days	62	75	99	88	87	
Inventory days	26	28	40	39	38	
Creditor days	62	34	41	37	34	

Source: Company, JM Financial

**History of Recommendation and Target Price**

Date	Recommendation	Target Price	% Chg.
20-Jul-23	Buy	475	
14-Aug-23	Buy	475	0.0
2-Nov-23	Buy	460	-3.1

**Recommendation History**



## APPENDIX I

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