

PNC Infratech | BUY



Asset sale on track; recovery in order inflow awaited

PNC Infratech's (PNC) 2QFY24 results were in-line with our estimates. PAT grew by 6.6% YoY to INR 1.4bn (estimate: INR 1.42bn; consensus: INR 1.41bn). PY financials include revenue from toll collection contract of c.INR 1bn and impacts YoY revenue growth and margins. Revenue grew by 8.5% YoY to INR 16.9bn (16% YoY growth on adjusted base). EBITDA margin declined by 40bps YoY on adjusted base to 13.4% (estimate: 13.1%). Execution on JJM orders is largely on track to reach the guided level of INR 20bn+ in FY24. Order backlog moderated to c.INR 171n (2.3x TTM revenues) as on Sept-23 in absence of any inflows in YTD. PNC targets inflows of INR 100bn in FY24 backed by strong bid pipeline of c.INR 1.26tn (NHAI: INR 900bn, MSRDC: INR 300bn, MoRTH: 63bn). PNC is on track to monetize 12 assets from its portfolio (11 HAM + 1 Annuity) with part proceeds likely to be received within FY24. Maintain BUY with revised price target of INR 460.

- Results in-line with estimates:** Revenue grew by 8.5% YoY to INR 16.9bn (estimate: INR 17.5bn) with adjusted growth at 16% YoY. JJM execution remained strong at INR 4bn in 2QFY24 (up 2.5x YoY). EBITDA grew by 10% YoY to INR 2.3bn while EBITDA margins declined 40bps YoY on adjusted base to 13.4%. PAT grew by 6.6% YoY to INR 1.4bn. Gross debt increased by INR 2.5bn YoY/INR 415mn QoQ to INR 5.3bn as on Sept-23. JJM debtors increased from c.INR 2.3bn in Mar-23 to c.INR 6bn in Sept-23 with execution too being robust at INR 8.2bn in 1HFY24 (up 3.4x YoY). Receivables increase is largely attributed to a tedious billing process rather than any funding constraint.
- Guides for order inflows of INR 100bn for FY24E backed by strong bid pipeline:** PNC's YTD inflows have been nil but it has maintained guidance of inflows of INR 100bn (Highways: 80-85%; Water, Railways, Metro: 15-20%) led by strong bid pipeline. NHAI bid pipeline stands at INR 900bn (HAM: INR 600bn, EPC: INR 300bn) with bid end date of Dec-23. Also, PNC has submitted bids for INR 300bn worth of MSRDC projects and INR 63bn of MoRTH projects in UP where bids are likely to open in Nov-23. PNC has guided for revenue growth of 10-15% YoY in FY24 with EBITDA margins of 13-13.5%.
- Asset monetization on track; proceeds will help fund equity commitment:** PNC targets to monetize 12 assets (11 HAMs, 1 Annuity) of which 7 assets (equity invested: INR 9bn) have received PCOD/COD. Due diligence has been completed and PNC expects to sign the SPAs soon and receive part proceeds within FY24. Equity requirement for PNC's portfolio of 22 HAM assets stands at INR 29.4bn of which INR 18.4bn is invested till Sept-23. Balance proceeds of INR 12.3bn will be invested over FY24-27E and will be funded through internal accruals and monetization proceeds.
- Maintain BUY with SoTP based price target of INR 460:** We like PNC for its track record of delivering robust growth while preserving margins and balance sheet. However, given the continued delay in NHAI ordering, we have lowered our FY25 revenue/PAT estimates by 4%/5%. We expect revenue/EPS CAGR of 12%/10% over FY23-25E. Valuations at 11.4x FY25E EPS vs. 5-year average trailing PE of 15x remain attractive. We maintain Buy with a revised SOTP based price target of INR 460 (EPC business valued at INR 394/share based on 13x FY25E EPS of INR 28.7 and HAM assets valued at P/B of 1x FY24E invested equity).

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	460
Upside/(Downside)	42.0%
Previous Price Target	475
Change	-3.1%

Key Data – PNCL IN

Current Market Price	INR324
Market cap (bn)	INR83.0/US\$1.0
Free Float	43.9%
Shares in issue (mn)	256.5
Diluted share (mn)	256.5
3-mon avg daily val (mn)	INR166.2/US\$2.0
52-week range	388/237
Sensex/Nifty	63,591/18,989
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-11.4	14.2	20.2
Relative*	-8.3	10.2	15.1

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary	(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
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	13.1	11.4
P/B (x)	1.5	2.2	1.8	1.8	1.6
EV/EBITDA (x)	5.7	8.6	7.4	8.3	7.3
Dividend Yield (%)	0.3	0.2	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 01/Nov/2023

Exhibit 1. Quarterly standalone results

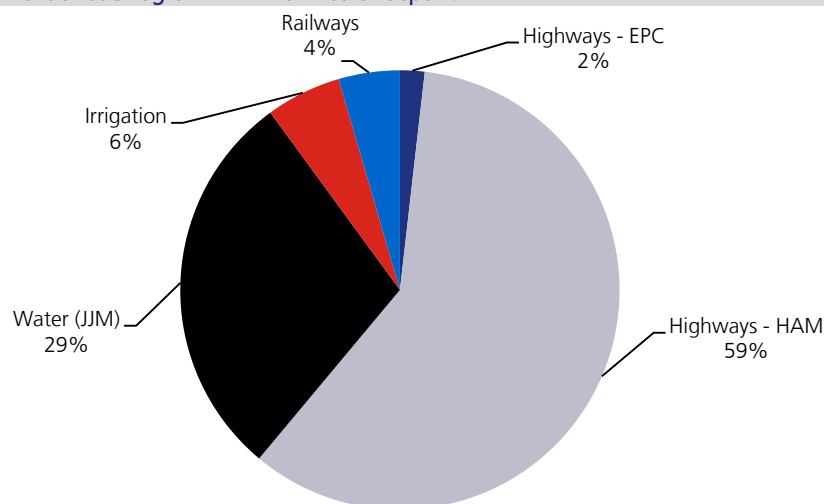
INR mn	2QFY23	3QFY23	4QFY23	FY23	1QFY24	2QFY24	2QFY24E	Variance (%)	FY24E	FY25E
Net Sales	15,611	16,270	21,146	70,608	18,614	16,930	17,500	-3.3%	77,218	88,801
EBITDA	2,070	2,081	2,810	9,539	2,451	2,276	2,293	-0.7%	10,266	11,812
EBITDA margin (%)	13.3	12.8	13.3	13.5	13.2	13.4	13.1		13.3	13.3
Other income	105	98	105	383	78	57	80	-28.2%	255	241
Depreciation	274	278	279	1,100	250	257	280	-8.4%	1,110	1,339
Interest	155	162	147	638	163	187	200	-6.4%	796	875
PBT	1,746	1,739	2,490	8,184	2,115	1,890	1,893	-0.1%	8,615	9,840
Tax	436	445	645	2,069	549	492	476	3.4%	2,202	2,477
Effective tax rate (%)	24.9	25.6	25.9	25.3	26.0	26.0	25.2		25.6	25.2
PAT	1,311	1,294	1,845	6,115	1,566	1,398	1,416	-1.3%	6,413	7,363
Extra-ordinary items	-	-	-	-	-	-	-		-	-
Reported PAT	1,311	1,294	1,845	6,115	1,566	1,398	1,416	-1.3%	6,413	7,363
YoY growth(%)										
Net sales	(3.3)	6.9	15.3	13.5	5.9	8.5	12.1		9.4	15.0
EBITDA	(6.6)	1.7	21.0	14.4	(4.9)	10.0	10.7		7.6	15.1
Other income	(39.8)	(7.4)	23.8	(29.4)	3.6	(45.2)	(23.7)		(33.3)	(5.5)
Interest	(36.4)	(22.2)	(13.7)	(20.4)	(6.4)	21.1	29.4		24.8	9.9
Depreciation	(16.4)	(17.3)	(13.0)	(15.3)	(7.3)	(6.5)	2.1		0.9	20.6
PBT	(4.0)	8.2	29.8	20.7	(4.2)	8.2	8.4		5.3	14.2
PAT	(3.2)	7.9	28.2	24.1	(6.0)	6.6	8.0		4.9	14.8
Reported PAT	(3.2)	59.8	33.5	36.5	(6.0)	6.6	8.0		4.9	14.8

Source: Company, JM Financial

Exhibit 2. Key assumptions

INR mn	FY21	FY22	FY23	FY24E	FY25E
Order inflows	73,810	90,938	42,419	80,000	110,000
EBITDA Margins (%)	13.7%	13.4%	13.5%	13.3%	13.3%
Equity infusion	733	1,247	1,635	6,900	5,538
Capex	1,820	164	439	1,000	1,800
NWC days*	32	51	91	80	80

Source: Company, JM Financial; *: ex of free cash and L&A to subsidiaries/JVs

Exhibit 3. Order backlog of INR 171bn* as of Sept'23

Source: Company, JM Financial; *: including 4 HAMs with estimated EPC value of c.INR 37bn where AD is awaited

Exhibit 4. 100%/89% of our FY24E/25E revenue to be derived from Mar'23 backlog

INR mn	Order value	FY24E revenue	FY25E revenue
Source of revenue			
Mar-23 order backlog	202,306*	77,218	85,045
Share of total revenue		100%	96%
FY24E order inflows	80,000	-	3,755
Share of total revenue		0%	4%
Total standalone revenue		77,218	88,801

Source: Company, JM Financial; *: including 4 HAMs awaiting appointed dates with EPC value of c.INR 37bn

Exhibit 5. Water segment to account for 28%/34% of PNC's FY24E/25E revenue

INR mn	FY24E revenue	FY25E revenue
Highways	53,161	54,602
Share of total revenue	69%	61%
Water (JIM)	22,000	30,000
Share of total revenue	28%	34%
Railways	1,157	2,699
Share of total revenue	1%	3%
Irrigation	900	1,500
Share of total revenue	1%	2%
Total revenues	77,218	88,801

Source: Company, JM Financial

Exhibit 6. SoTP based price target of INR 460

INR mn	Valuation methodology	Value driver	Multiple (x)	Valuation	INR/share
EPC business	PEX FY25E EPS	7,363	13.0	95,720	373
BOT assets	P/B	3,951	0.7	2,766	11
HAM assets	P/B FY24E	19,423	1.0	19,423	76
Total				117,908	460

Source: Company, JM Financial

Key conference call takeaways

- **FY24 guidance maintained:** Revenue growth at 10-15% to c.INR 78-81bn (FY23: INR 70.6bn); EBITDA margin: 13-13.5%; Order inflows: INR 100bn with 80-85% from Highways (FY23 inflows: INR 42bn; YTD inflow nil).
- **Asset monetisation:** Targets to monetize 12 assets (11 HAMs, 1 Annuity) of which 7 assets have received PCOD/COD and lock-in of 6 months also completed. Targeting to complete monetization and receive proceeds for these 7 assets (equity invested: INR 9bn) by Mar-24. Non-binding agreement is signed and due diligence is completed.
- **Claims filed under Vivad se Vishwas scheme** at c.INR 7.7bn for 3 projects. Last date of submission was 31st Oct-23. PNC expects offer from NHAI in Nov-23. Under this scheme the contractors can file settlement @65% of the arbitration approved amounts and the government departments are encouraged to settle the claims instead of continuing with protracted litigations.
- **Equity requirement for HAMs:** Total equity: INR 29.4bn (invested INR 18.4bn till Sept-23); While 1HFY24 equity investment was elevated at INR 5.9bn, 2HFY24 requirement is only up to INR1bn. Balance equity of c.INR 10bn to be invested over FY25-27E.
- **Appointed dates** for 4 new HAMs likely by Mar-24.

Exhibit 7. PNC's HAM portfolio of 22 assets

Project (INR mn)	Awarding authority	State	Length (km)	FC/AD Status	BPC	Total Debt	Invested equity*	Debt*
Dausa-Kauthun	NHAI	Rajasthan	83	COD	8,810	3,710	650	2,760
Aligarh Kanpur	NHAI	UP	45	COD	11,970	5,000	1,310	4,590
Jhansi-Khajurao II	NHAI	UP	85	COD	13,100	5,900	1,040	4,960
Chitradurga Devanagere	NHAI	Karnataka	73	COD	14,340	6,060	1,070	5,090
Jhansi-Khajurao I	NHAI	UP	76	PCOD	14,100	6,040	1,280	5,370
Chakeri Allahabad	NHAI	UP	145	PCOD	21,590	8,730	1,870	8,020
Mitrasen Kanpur	NHAI	UP	61	PCOD	20,520	7,750	1,820	7,200
Challakere Hariyur	NHAI	Karnataka	56	UC	11,570	4,400	930	3,400
Jagdishpur Faizabad	NHAI	UP	60	UC	15,300	5,590	1,320	4,900
Unnao Lalgunj	NHAI	UP	70	UC	16,020	6,310	1,170	4,650
Meerut Najibabad	NHAI	UP	54	UC	14,120	5,140	1,090	4,350
11 assets part of asset monetization target			808		161,440	64,630	13,550	55,290
Kanpur Lucknow Pkg-1	NHAI	UP	18	UC	14,130	7,800	850	700
Kanpur Lucknow Pkg-2	NHAI	UP	45	UC	15,130	7,700	850	1,500
Sonauli Gorakhpur	NHAI	UP	80	UC	14,580	7,570	830	-
Mathura Bypass to Gaju Village	NHAI	UP	33	UC	8,850	4,720	520	500
Hardoi bypass	NHAI	UP	55	UC	8,640	4,430	480	700
Gaju village to Devinagar bypass	NHAI	UP	33	UC	7,380	3,860	420	1,000
Badadal to Maradgi	NHAI	Maharashtra/Karnataka	71	UC	15,750	8,120	890	-
Singraur to Baranpur	MoRTH	UP	26	AD awaited	8,190	3,100	3	-
Khainti to Palka - Pkg 2	NHAI	Bihar	27	AD awaited	8,910	3,380	3	-
Bhairampur to konki - Pkg 5	NHAI	Bihar	36	AD awaited	11,134	4,214	3	-
Pachmon to Anarbansalea - Pkg 6	NHAI	Bihar	35	AD awaited	12,600	4,769	3	-
Total			1,266		286,734	124,294	18,420	59,690

Source: Company, JM Financial; *: as on Sept-23; UC: Under construction

These 7 assets are targeted to be monetized by Mar-24

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	
Total Revenue	49,254	62,228	70,608	77,218	88,801	
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	
EBITDA	6,728	8,339	9,539	10,266	11,812	
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	
Adjusted Net Profit	3,619	4,926	6,115	6,413	7,363	
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	
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%	
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 WCcap.	-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	
Operating Cash Flow	4,087	2,598	-1,484	9,014	7,145	
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	-5,538	
Others	-842	-1,128	516	0	0	
Investing Cash Flow	-3,395	-2,538	-1,558	-7,900	-7,338	
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	
Financing Cash Flow	-410	-2,466	1,499	-2,520	367	
Inc / Dec (-) in Cash	282	-2,406	-1,543	-1,406	174	
Opening Cash Balance	7,401	7,683	5,277	3,734	2,328	
Closing Cash Balance	7,683	5,277	3,734	2,328	2,502	

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	
Total - Equity & Liab.	33,077	35,408	43,676	48,365	56,970	
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	22,785	
Current Assets	33,509	38,264	44,773	43,951	48,885	
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	2,502	
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	28,488	
Total - Assets	33,077	35,408	43,676	48,365	56,970	

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%	

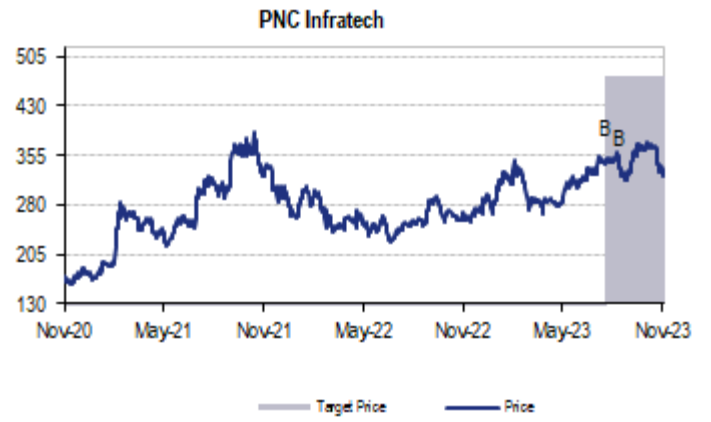
Key Ratios						
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
BV/Share (INR)	113.4	130.2	153.6	177.8	205.5	
ROIC	17.4%	21.0%	19.5%	17.3%	16.6%	
ROE	13.3%	15.8%	16.8%	15.1%	15.0%	
Net Debt/Equity (x)	-0.2	-0.1	0.0	0.0	0.0	
P/E (x)	11.9	15.1	11.4	13.1	11.4	
P/B (x)	1.5	2.2	1.8	1.8	1.6	
EV/EBITDA (x)	5.7	8.6	7.4	8.3	7.3	
EV/Sales (x)	0.8	1.1	1.0	1.1	1.0	
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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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