

13 August 2024

India | Equity Research | Q1FY25 results review

PNC Infratech

Infrastructure

Management cuts guidance for FY25

PNC Infratech reported a 30% YoY decline in revenues in Q1FY25. Adjusted margin came in at 12.1% and adjusted profit declined by 30%. Note that reported profit was aided by bonus and claims of INR 4.4bn. Management highlighted that Q2 is also likely to be weak, as appointed date for a significant portion of the order book (OB) got delayed. As a result, management revised its guidance downwards for FY25 to a range of 0 to -10% YoY (from its earlier guidance of 15% growth YoY). Order inflow (OI) during the quarter stood at INR 50bn and book-to-bill ratio improved to 2.8x. We maintain **ADD** with a revised target price of INR 520 (earlier INR 581), valuing the EPC business at 12x FY26E EPC earnings and HAM assets at ~1.5x equity invested at end-FY26E.

A weak quarter

PNC reported deceleration of 29.7% with adjusted revenue of INR 13bn in Q1FY25 and saw its adjusted EBITDA margin drop 105bps YoY to 12.1%. Adjusted PAT slipped 39.4% YoY to INR 0.95bn. PNC guides for flat to -10% YoY revenues and 12.5% EBITDA margin for FY25. PNC has received INR 3.8bn on arbitration claim and INR 0.6bn from bonus in projects.

Order inflow in quarter

It received OI of INR 50bn in the quarter. As a result, PNC's OB improved to INR 198bn, as on result date (2.8x trailing 12 months revenue). PNC expects incremental OI of INR 80–100bn in FY25.

Downward revision in guidance

Management revised its FY25 revenue guidance downwards (0 to -10%). It also revised its EBITDA margin guidance to 12.5% (from earlier >13%).

Asset monetisation on target

PNC has sold its stake in two phases for 12 of its road assets. The company expects to receive INR 50bn by Dec'24 and INR 40bn by Sep'25.

Maintain ADD with revised TP of INR 520

We maintain **ADD** with a revised target price of INR 520 (earlier INR 581), valuing the EPC business at 12x FY26E EPC earnings and HAM assets at ~1.5x equity invested at end-FY26E.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	70,238	74,022	75,533	86,828
EBITDA	9,169	9,804	8,881	11,275
EBITDA Margin (%)	0.1	0.1	0.1	0.1
Net Profit	5,745	6,271	5,486	6,883
EPS (INR)	22.4	24.4	21.4	26.8
EPS % Chg YoY	0.3	0.1	(0.1)	0.3
P/E (x)	21.6	19.8	22.7	18.1
EV/EBITDA (x)	11.0	9.8	12.0	9.2
RoCE (%)	0.2	0.2	0.1	0.1
RoE (%)	0.2	0.1	0.1	0.1

Mohit Kumar

kumar.mohit@icicisecurities.com
+91 22 6807 7419

Nidhi Shah

nidhi.shah@icicisecurities.com

Market Data

Market Cap (INR)	124bn
Market Cap (USD)	1,481mn
Bloomberg Code	PNCL IN
Reuters Code	PNCL BO
52-week Range (INR)	575 /310
Free Float (%)	44.0
ADTV-3M (mn) (USD)	11.0

Price Performance (%)	3m	6m	12m
Absolute	11.7	22.7	37.4
Relative to Sensex	2.3	11.4	15.4

Previous Reports

03-06-2024: [Q4FY24 results review](#)

Outlook and valuation

Road bidding in India witnessed a sharp dip in FY24. The pipeline for road construction remains robust at >INR 1.5trn. We note, 25% of the road under Bharatmala Pariyojana is yet to be awarded (~INR 3trn). The pipeline primarily consists of BOT and HAM assets, which bodes well for listed companies with stronger balance sheets. The delay in Cabinet approval for increased capital cost has impacted OI of EPC companies that are mainly dependent on the road sector. We expect bidding to pick up in FY25E once the effects of the general elections and union budget have worn off.

PNC has created a strong brand over the years with stable execution CAGR at 19% over FY19–24 (INR 75bn, FY24 revenue), EBITDA CAGR FY19–24 of 18% (INR 10.5bn, FY24 EBITDA) and PAT CAGR at 19% (INR 6.3bn, FY24 PAT).

Set in a year of subdued road bidding, PNC's OB stands at INR 141bn, as on result date (2.8x trailing 12 months revenue). With a strong bid pipeline of INR 2.5trn in FY25, it expects OI of INR 80–100bn by end-FY25, in addition to the INR 50bn-worth of orders won recently.

We maintain **ADD** rating on the stock. Our revised SoTP-based TP is INR 520, valuing its EPC business at 12x FY26E adjusted PAT, BOT at 1.2x NPV of FCFE and its HAM portfolio at 1.5x equity investment.

Key risks: 1) Delay in receiving appointment dates for L1 orders. 2) Lower OI. 3) Delay in asset monetisation.

Exhibit 1: SoTP-based revised target price of INR 520 per share

(INR mn)	Basis of valuation	PAT/NPV/Equity value	Multiple	Valuation	Per share
EPC	PEx FY26E	6,818	12	81,129	316
BOT	NPV of FCFE	4,693	1.4	6,570	26
HAM	1.5x equity invested	26,897	1.7	45,724	178
Total				1,33,423	520

Source: I-Sec research

Exhibit 2: Operational projects and HAM projects portfolio as on Jun'24

Project	Type	Stake	Status	TPC (INR mn)	Equity invested (INR nm)	Total debt (INR mn)	Debt (Jun-24) (INR mn)
Kanpur Kabrai	NHAI	100%		4585	675	2680	-
Gwalior Bhind	MPRD	100%		3403	783	2350	70
Bareilly Almora	UPSH C	100%		6045	746	4600	2720
Rae Bareli Jaunpur	UPSH A	100%		8374	1396	6978	2410
Narela Industrial Area	DSIIDC	100%		1750	350	1400	-
Dausa-Lalsot	HAM	100%	COD	8200	650	3710	2660
Aligarh-Kanpur	HAM	100%	COD	11,100	1310	5000	4440
Jhansi-Khajuraho (Pkg II)	HAM	100%	COD	12,620	1040	5900	4480
Chitradurga-Davanagere	HAM	100%	COD	13,380	1070	6060	4610
Jhansi-Khajuraho (Pkg I)	HAM	100%	COD	13,420	1280	6040	5150
Jagdishpur-Faizabad	HAM	100%	COD	13,110	1400	5590	5300
Chakeri-Allahabad	HAM	100%	COD	20,180	1930	8730	7690
Mitrasen to Kanpur	HAM	100%	PCOD	17,900	1940	7750	7400
Unnao-Lalganj	HAM	100%	PCOD	14,910	1580	6310	5720
Meerut – Nazibabad	HAM	100%	PCOD	12,070	1280	5140	4950
Challakere-Hariyur	HAM	100%	UC	10,230	1140	4400	4050
Kanpur-Lucknow (Pkg I)	HAM	100%	UC	16,180	1110	7800	3620
Kanpur-Lucknow (Pkg II)	HAM	100%	UC	16,620	1100	7770	3970
Sonauli- Gorakhpur	HAM	100%	UC	16,110	850	7570	1950
Mathura - Gaju Village (Pkg- 1B)	HAM	100%	UC	9940	670	4720	2300
Hardoi	HAM	100%	UC	9480	640	4430	2600
Gaju Village- Devinagar (Pkg-1C)	HAM	100%	UC	8190	720	3860	3110
Akkalkot Pkg-II (Badadal-Maradgi S)	HAM	100%	UC	17,330	910	8120	2700
Singraur Uphar - Baranpur Kadipur Ichauli (Pkg-III)	HAM	100%	UC	9290	30	4440	-
Greenfield Varanasi - Ranchi - Kolkata Hgwy(Pkg-2)	HAM	100%	FC	10,300	30	5000	-
Greenfield Varanasi - Ranchi - Kolkata Hgwy (Pkg-3)	HAM	100%	FC	12,970	50	6320	-
Greenfield Varanasi - Ranchi - Kolkata Hgwy (Pkg-6)	HAM	100%	FC	14,660	50	7150	-
4 laning of Western Bhopal Bypass	HAM	100%	FC #	13,800	-	6770	-
				3,26,147	24,730	1,56,588	81,900

Source: Company data, I-Sec research; Pkg = Package, Hgwy =Highway, TPC = Total Project Cost;

Q1FY25 conference call highlights

Quarterly results: Highlights

- Revenue for Q1FY25 includes arbitration claims of INR 3.8bn and bonus of INR 0.6bn. Adjusted revenue declined 29.7% YoY to INR 13bn.
- Adjusted EBITDA declined 35% YoY to INR 1.6bn with EBITDA margin of 12.1% (vs. 13.2% Q1FY24).
- As a result, adjusted PAT decreased 39% YoY to INR 0.9bn (vs. INR 1.6bn Q1FY24).

FY25 guidance

- Management has previously guided for revenue growing by 15% YoY; it has currently revised revenue to remain flat or decrease by 10% YoY in FY25 with EBITDA margin of 12.5% on account of general elections and extreme heat.
- Management guides for FY26 revenues to grow at 15%. However, the said guidance is the minimum number expected and could go up to see a 20% upside since the base is on the lower side.
- Said guidance estimates revenue growing at a CAGR of 1.7–7.2% between FY24–26.

Book highlights

- PNC order book stands at INR 190bn with the deceleration in OI during Q1FY25.
- The book-to-bill ratio stands to 2.8x at end-Q1FY25 compared to 2.6x in Q1FY24 and the increase has been observed on account of a lower base.
- Management expects OI of INR 80–100bn by end-FY25 and has put forth a capex guidance of INR 0.8–1bn for FY25.

Asset monetisation

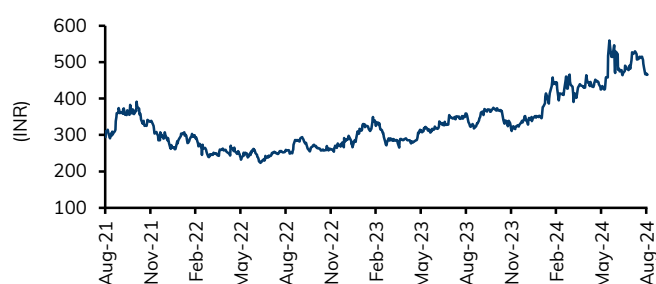
- Management has provided the guidance for divestment of 12 road assets, which are segmented into two phases –
 - **Phase 1 (seven road assets):** Estimated EV of INR 50bn, out of which debt is INR 35bn, and equity is INR 10bn. Management has revised its guidance for the receipt of sale proceeds from Sep'25 to the end of FY25.
 - **Phase 2 (five road assets):** Estimated EV of INR 39bn, out of which debt is INR 29bn and equity is INR 7bn. Management has guided the execution of the sale to be completed by Sep'25.

Exhibit 3: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	56.1	56.1	56.1
Institutional investors	38.3	38.9	37.2
MFs and others	26.6	26.0	25.3
FIs/Banks	0.2	0.2	0.0
Insurance	0.5	0.8	0.9
FIIIs	11.0	11.9	11.0
Others	5.6	5.0	6.7

Source: Bloomberg

Exhibit 4: Price chart



Source: Bloomberg

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	70,238	74,022	75,533	86,828
Operating Expenses	3,359	3,556	3,998	4,398
EBITDA	9,169	9,804	8,881	11,275
EBITDA Margin (%)	0.1	0.1	0.1	0.1
Depreciation & Amortization	1,100	1,033	1,324	1,474
EBIT	8,069	8,771	7,557	9,801
Interest expenditure	(638)	(658)	(700)	(755)
Other Non-operating Income	383	278	608	319
Recurring PBT	7,814	8,391	7,464	9,365
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,069	2,120	1,978	2,482
PAT	5,745	6,271	5,486	6,883
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	370	2,223	-	-
Net Income (Reported)	6,115	8,493	5,486	6,883
Net Income (Adjusted)	5,745	6,271	5,486	6,883

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	34,841	46,691	42,430	44,952
of which cash & cash eqv.	3,734	7,110	1,072	(1,530)
Total Current Liabilities & Provisions	14,116	17,562	14,833	16,834
Net Current Assets	20,725	29,129	27,597	28,118
Investments	20,550	21,048	21,756	27,756
Net Fixed Assets	5,219	4,633	8,794	9,320
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	62	62
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	46,494	54,810	58,209	65,256
Liabilities				
Borrowings	600	234	5,147	5,647
Deferred Tax Liability	-	-	37	84
provisions	139	53	55	62
other Liabilities	6,339	6,710	-	-
Equity Share Capital	513	513	513	513
Reserves & Surplus	38,903	47,300	52,456	58,949
Total Net Worth	39,416	47,813	52,969	59,462
Minority Interest	-	-	-	-
Total Liabilities	46,494	54,810	58,209	65,256

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	15,015	18,928	15,233	16,390
Working Capital Changes	3,565	5,113	4,504	3,116
Capital Commitments	581	447	5,547	2,000
Free Cashflow	14,433	18,481	9,687	14,390
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	581	447	5,547	2,000
Issue of Share Capital	-	-	-	-
Interest Cost	(638)	(658)	(700)	(755)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(210)	(270)	(330)	(390)
Others	(10,599)	(11,056)	(13,297)	(16,940)
Cash flow from Financing Activities	(11,447)	(11,984)	(14,327)	(18,085)
Chg. in Cash & Bank balance	3,568	6,944	906	(1,696)
Closing cash & balance	3,734	7,110	1,072	(1,530)

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	22.4	24.4	21.4	26.8
Adjusted EPS (Diluted)	22.4	24.4	21.4	26.8
Cash EPS	26.7	28.5	26.5	32.6
Dividend per share (DPS)	(0.7)	(0.9)	(1.1)	(1.3)
Book Value per share (BV)	153.6	186.4	206.5	231.8
Dividend Payout (%)	0.0	0.0	(0.1)	0.0
Growth (%)				
Net Sales	0.1	0.1	0.0	0.1
EBITDA	0.2	0.1	(0.1)	0.3
EPS (INR)	0.3	0.1	(0.1)	0.3
Valuation Ratios (x)				
P/E	21.6	19.8	22.7	18.1
P/CEPS	18.2	17.0	18.3	14.9
P/BV	3.2	2.6	2.3	2.1
EV / EBITDA	11.0	9.8	12.0	9.2
P / Sales	1.8	1.7	1.6	1.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	0.2	0.2	0.2	0.2
EBITDA Margins (%)	0.1	0.1	0.1	0.1
Effective Tax Rate (%)	0.3	0.3	0.3	0.3
Net Profit Margins (%)	0.1	0.1	0.1	0.1
NWC / Total Assets (%)	0.4	0.4	0.5	0.5
Net Debt / Equity (x)	(0.6)	(0.6)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(2.6)	(2.8)	(2.0)	(1.8)
Profitability Ratios				
RoCE (%)	0.2	0.2	0.1	0.1
RoE (%)	0.2	0.1	0.1	0.1
RoC (%)	0.2	0.2	0.1	0.1
Fixed Asset Turnover (x)	12.8	15.0	11.3	9.6
Inventory Turnover Days	42	39	39	40
Receivables Days	104	99	81	86
Payables Days	37	47	34	35

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
