

Project Execution to Pick Up & Margins To Be Maintained.

Est. Vs. Actual for Q1FY25: Revenue – **MISS**; EBITDA Margin – **BEAT**; PAT – **BEAT**
Revision in Estimates post Q1FY25

FY25E/FY26E: Revenue: -16%/-12%; EBITDA: 17%/-12%; PAT: 20%/-15%

Recommendation Rationale

- **Robust & Diversified Order Book:** PNCIL has an order book valued at Rs 14,100 Cr (as of 30th June 2024), indicating revenue visibility for the next 2-2.5 years. The total value of contracts, including a contract worth Rs 4,994 Cr where the company is L1, exceeds Rs 19,000 Cr, which is over 2.5 times FY24 revenue. The order book is well-diversified between roads and water projects..
- **Order Inflow of Rs 8,000-10,000 Cr Expected in FY25:** The Union Budget 2024-25 increased capex by 11% for the infrastructure sector, providing greater opportunities for companies like PNCIL. With a strong bid pipeline of over Rs 1.5 Lc Cr from NHA, the management expects an additional order inflow of Rs 8,000-10,000 Cr in FY25.
- **Divestment of Equity Stake in 12 of Company's Road Assets:** The company, along with its wholly-owned subsidiary, PNC Infra Holdings Limited, has signed a Master Securities Purchase Agreement (SPA) with Highways Infrastructure Trust (HIT), an Infrastructure Investment Trust (InvIT), to divest 12 of the company's road assets: 11 National Highway (NH) Hybrid Annuity Mode (HAM) assets and 1 State Highway BOT Toll asset. The enterprise value is Rs 9,005 Cr, with an equity value of Rs 2,902 Cr. The company will receive money from asset monetization in two tranches: tranche 1 of Rs 5,050 Cr and tranche 2 of Rs 3,990 Cr. The management expects Rs 5050 Cr of tranche 1 to be received by the end of FY25 and for tranche 2 by Sept,2025.
- **Revision in Revenue estimates:** Due to general elections, delays in AD, and early monsoons in certain geographies, revenue is expected to be impacted until H1FY25 ends. The management expects project execution to pick up from Q3FY25. However, the company has guided for flattish to 10% degrowth in revenue for FY25, which will be carried forward as 15% growth in FY26. We therefore cut our revenue estimates for FY25/FY26.

Sector Outlook: Positive

Company Outlook & Guidance: For FY25, the company expects revenue to de-grow by 10% due to delay in land acquisition and continued monsoon impact in the execution. EBITDA margins are expected to be between 12%-12.5%.

Current Valuation: 12x FY26 EPS (Earlier Valuation: 12x FY26 EPS) and HAM assets 1.2x book value

Current TP: Rs 465/share (Earlier TP: Rs 505/share)

Recommendation: We maintain our **HOLD** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage: H.G Infra (TP: Rs1800 /share), G R Infraprojects Ltd (TP:1820/share), J Kumar Infra (TP:950/share)

Outlook

The road sector is anticipated to see increased investment as the government ramps up infrastructure spending, as outlined in the Budget 2024-25. The company is also exploring opportunities to bid for railway projects to diversify its revenue profile. Q1FY25 was impacted by various reasons such as election, extreme heat conditions and delay in receiving AD for pending projects. This resulted in change in estimates for FY25/FY26. We await to see better performance by the company moving ahead.

Valuation & Recommendation

The stock is currently trading at an implied PE of 12x FY26E EPS. We maintain our **HOLD** recommendation on the stock with a TP of Rs 465 /share, implying a downside of 4% from the CMP.

Key Financials (Standalone)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1744	-26%	-6%	1954	-11%
EBITDA	594	5%	142%	243	144%
EBITDA Margin	34%	990 bps	2080 bps	12.4%	2160 bps
Net Profit	421	5%	169%	157	169%
EPS (Rs)	16.4	5%	169%	6.1	169%

Source: Company, Axis Securities Research

(CMP as of 12th Aug,2024)

CMP (Rs)	485
Upside /Downside (%)	(4)
High/Low (Rs)	575/310
Market cap (Cr)	12,498
Avg. daily vol. (6m) Shrs.	13,43,000
No. of shares (Cr)	25.6

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	56.1	56.1	56.1
FIs	11.0	11.9	10.8
MFs / UTI	26.6	26.0	25.3
Banks / FIs	0.0	0.0	0.0
Others	6.3	6.1	7.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	7,699	7,447	8,564
EBITDA	1,277	1,313	1,070
Net Profit	850	883	695
EPS (Rs)	33	34	27
PER (x)	15	14	18
P/BV (x)	2.6	2.2	2.0
EV/EBITDA (x)	9.7	9.4	11.5
ROE (%)	7,699	7,447	8,564

Change in Estimates (%)

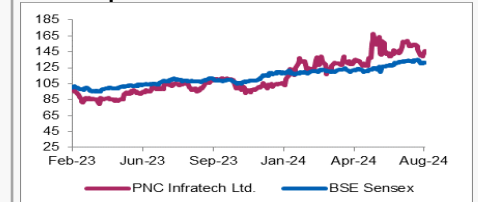
Y/E Mar	FY25E	FY26E
Sales	-16%	-12%
EBITDA	17%	-12%
PAT	20%	-15%

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	NA
Sector Average	49

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

Relative performance


Source: Ace Equity, Axis Securities Research

Uttam K Simal

Research Analyst
 Email: Uttamkumar.simal@axissecurities.in

Shikha Doshi

Research Analyst
 Email: Shikha.doshi@axissecurities.in

Financial Performance

- The company reported revenue of Rs 1,744 Cr, down 6% YoY, due to slow project execution caused by general elections, delays in AD, and early monsoons in certain geographies. It recorded an EBITDA of Rs 594 Cr, up 142% YoY, and APAT of Rs 421 Cr, up 169% YoY. The increase in margins and profits is attributed to non-recurring items, including Rs 379 Cr from the execution of a Settlement Agreement between NHAI and two SPVs, PNC Raebareli Highways Private Limited and PNC Kanpur Highways Limited, under the 'Vivad Se Vishwas II' scheme. Additionally, Rs 56 Cr was received as a bonus for the early completion of an EPC project in Maharashtra. The company posted an EBITDA margin of 34% in Q1FY25 (vs. an estimate of 12.4%), compared to 13.2% in Q1FY24.

Key Concall Highlights

- Order Book & Order Inflow:** The current executable order book stands at Rs 14,100 Cr, with 82% attributed to Highway & Expressway projects and the remaining 18% to Water and other projects. The company anticipates an additional order inflow of Rs 8,000-10,000 Cr in FY25. The bidding pipeline remains robust, with over Rs 1,50,000 Cr in EPC and HAM projects. NHAI is expected to award numerous projects in FY25 to address the shortfall from FY24. Additionally, the company plans to bid for railway projects, with the central government recently announcing Rs 25,000 Cr worth of railway projects. There are 5 projects (4 HAM and 1 EPC) worth Rs 4,800 cr where AD is peneding to be received by Q3FY25.
- HAM Portfolio:** The company holds a portfolio of 23 HAM projects, totalling approximately Rs 30,000 Cr, making it the largest portfolio of HAM highway projects in the country. Currently, 10 projects are operational, 9 are under construction, 4 have completed financial closure.
- Equity Investments in Subsidiaries:** The total equity requirement is Rs 3,092 Cr, of which Rs 2,079 Cr has been invested to date. The balance required for HAM projects is Rs 1,013 Cr, expected to be Rs 590 Cr in FY25, Rs 290 Cr in FY26, and Rs 140 Cr in FY27. This equity investment will be funded through internal accruals.
- Asset Monetization:** The company, together with its wholly-owned subsidiary, PNC Infra Holdings Limited, has signed a Master Securities Purchase Agreement (SPA) with Highways Infrastructure Trust (HIT), an Infrastructure Investment Trust (InvIT) affiliated with KKR & Co. Inc. The agreement involves divesting 12 of the company's road assets: 11 NH Hybrid Annuity Mode (HAM) assets and 1 State Highway BOT Toll asset. The enterprise value of the divestment is Rs 9,005 Cr, with an equity value of Rs 2,902 Cr. The disinvestment aligns with the company's strategic goal of recycling capital invested in operating road assets. The proceeds will be received in two tranches: Rs 5,050 Cr and Rs 3,990 Cr. The management expects Rs 5050 Cr of tranche 1 to be received by the end of FY25 and for tranche 2 by Sept,2025
- Vivad Se Vishwas Scheme:** Under this scheme, the company received settlement money of Rs 379 Cr from NHAI for two SPVs: PNC Raebareli Highways Private Limited and PNC Kanpur Highways Limited.
- Jal Jivan Mission:** In Q1FY25, the company generated revenue of Rs 289 Cr from JJM projects and expects over Rs 1,500 Cr of revenue from water projects in FY25.
- Working Capital Days:** The company's working capital days were 121 in Q1FY25, up from 102 in Q4FY24. Capex is projected to range between Rs 80-100 Cr in FY25. As of 30th June 2024, mobilization advance stood at Rs 385 Cr, retention money at Rs 143 Cr, debtors at Rs 2,212 Cr, creditors at Rs 700 Cr, and inventories at Rs 750 Cr. Total standalone debt was Rs 389 Cr, with cash and bank balances at Rs 486 Cr.

Key Risks to Our Estimates and TP

- Lower order inflow and slower execution may hamper revenue growth
- Higher input prices may impact margins

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	7,447	8,564	8,847	9,732	-16%	-12%
EBITDA	1,313	1,070	1,115	1,216	18%	-12%
PAT	883	695	729	805	21%	-14%

Source: Company, Axis Securities Research

Result Review Q1FY25

(Rs Cr)	Quarterly Performance				
	Q1FY25	Q4FY24	Q1FY24	% Change (QoQ)	% Change (YoY)
Sales	1,744	2,342	1,861	-26%	-6%
Other Op. Inc	0	0	0		
Total Revenue	1,744	2,342	1,861	-26%	-6%
Expenditure					
Cost of material consumed	975	1539	1401	-37%	-30%
Change in Inventory	0	0	0	0%	0%
Employee Cost	85	98	83	-14%	2%
Other Expenses	91	139	132	-34%	-31%
Total Expenditure	1151	1777	1616	-35%	-29%
EBITDA	594	565	245	5%	142%
	34.0%	24.1%	13.2%		
Oth. Inc.	9	10	8	-14%	11%
Interest	12.9	13.5	16.3	-5%	-21%
Depreciation	22	27	25	-15%	-10%
Exceptional Item	567	535	212	6%	168%
PBT	146	133	55	10%	165%
Tax	421	402	157	5%	169%
PAT	16.4	15.7	6.1	5%	169%
EPS (Rs.)	1,744	2,342	1,861	-26%	-6%

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	7,061	7,699	7,447	8,564
Other operating income	0	0	0	0
Total income	7,061	7,699	7,447	8,564
Cost of materials consumed	5,262	5,548	5,245	6,431
Contribution (%)	25.5%	27.9%	29.6%	24.9%
Other Expenses	845	873	889	1,062
Operating Profit	954	1,277	1,313	1,070
Other income	38	28	38	46
PBIDT	992	1,305	1,350	1,117
Depreciation	110	103	107	120
Interest & Fin Chg.	64	66	53	57
Pre-tax profit	818	1,136	1,190	940
Tax provision	207	286	308	244
PAT	611	850	883	695

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	6,070	6,498	7,344	8,286
Net Block	525	466	449	420
Right to use assets	9	8	8	8
CWIP	0	0	0	0
Investments	1035	1664	2304	2634
Wkg. cap. (excl cash)	1991	1782	1777	2036
Cash / Bank balance	373	713	945	1037
Other assets	2137	1865	1862	2152
Capital employed	6,070	6,498	7,344	8,286
Equity capital	51	51	51	51
Reserves	3890	4730	5613	6308
Minority Interests	0	0	0	0
Borrowings	450	382	382	382
Other Liabilities	1679	1334	1298	1545

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PBT	818	1136	1190	940
Depreciation	110	103	107	120
Interest Expense	64	66	53	57
Changes in Working Capital	-935	257	-27	-303
Others	6	-10	-38	-46
Tax Paid	-217	-291	-308	-244
Net Cash from Operations	(153)	1261	978	523
Capex	-62	-48	-90	-90
Investment	-163	-722	-640	-330
Others	112	-8	38	46
Net Cash from Investing	(114)	(779)	(692)	(374)
Borrowings	-83	30	0	0
Interest Expense	-64	-66	-53	-57
Dividend paid	-13	-13	0	0
Others	312	87	0	0
Net Cash from Financing	153	38	(53)	(57)
Net Change in Cash	(114)	520	232	92
Opening cash	407	293	616	848
Closing cash	293	813	848	940

Source: Company, Axis Securities Research

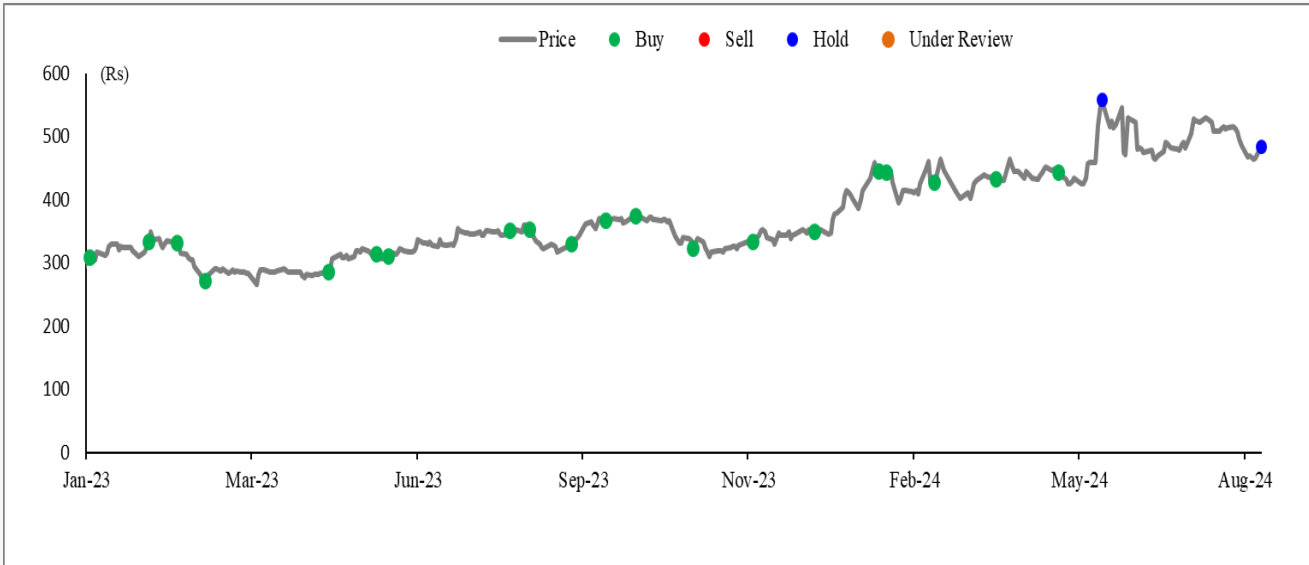
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Growth Indicator				
Sales Growth	12%	9%	-3%	15%
EBITDA Growth	21%	34%	3%	-18%
PAT Growth	37%	39%	4%	-21%
PROFITABILITY RATIOS				
EBITDA Margin	13.5%	16.6%	17.6%	12.5%
Adjusted net margin	8.7%	11.0%	11.9%	8.1%
EFFICIENCY RATIOS (x)				
Capital Turnover	1.79	1.61	1.31	1.35
Total Asset Turnover	1.52	1.41	1.17	1.20
Fixed Asset Turnover	13.4	16.5	16.6	20.4
Debtor days	99	92	92	92
Inventory days	46	43	43	43
Payable days	41	53	50	50
Cash Conversion Cycle (days)	104	83	86	86
Leverage ratios				
Debt to equity	0.05	0.05	0.04	0.04
Net debt to equity	0.02	-0.07	-0.10	-0.10
Interest coverage	15	19	25	19
PER SHARE DATA				
Diluted EPS (Rs)	23.8	33.1	34.4	27.1
Book value per share (Rs)	154	186	221	248
DPS (Rs)	0.5	0.5	0.0	0.0
Return Ratios				
Return on equity	17%	19%	17%	12%
Return on capital employed	20%	24%	21%	15%
VALUATION RATIOS				
P/E	19	15	14	18
P/BV	2.9	2.6	2.2	2.0
EV/EBITDA	11.9	9.7	9.4	11.5

Source: Company, Axis Securities Research

PNC Infratech Price Chart and Recommendation History



Date	Reco	TP	Research	Date	Reco	TP	Research
01-Jan-23	BUY	340	Top Picks	01-Apr-24	BUY	510	Top Picks
01-Feb-23	BUY	370	Top Picks	02-May-24	BUY	510	Top Picks
15-Feb-23	BUY	390	Result Update	27-May-24	HOLD	505	Result Update
01-Mar-23	BUY	390	Top Picks	13-Aug-24	HOLD	465	Result Update
01-Apr-23	BUY	390	Top Picks				
02-May-23	BUY	390	Top Picks				
26-May-23	BUY	425	Result Update				
01-Jun-23	BUY	425	Top Picks				
01-Jul-23	BUY	425	Top Picks				
01-Aug-23	BUY	425	Top Picks				
14-Aug-23	BUY	435	Result Update				
01-Sep-23	BUY	425	Top Picks				
18-Sep-23	BUY	435	AAA				
03-Oct-23	BUY	425	Top Picks				
02-Nov-23	BUY	415	Result Update				
01-Dec-23	BUY	415	Top Picks				
01-Jan-24	BUY	415	Top Picks				
02-Feb-24	BUY	505	Top Picks				
07-Feb-24	BUY	510	Result Update				
01-Mar-24	BUY	510	Top Picks				

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. JatinSanghani, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in; Registered Office Address – Axis House, 8th Floor, Wadia International Centre, P.B. Marg, Worli, Mumbai-400025.

Corporate Office Address – Axis Securities Limited, Unit No.002 A, Ground Floor, Agastya Corporate Park- Piramal Realty, Near Phoenix Market City Mall, Kurla (W), Mumbai – 400070.

Administrative office address: Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

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List of Research Analyst (Fundamental):

Sr. No	Name	Designation	Sector	E-mail
1	Neeraj Chadawar	Head of Research	All Sectors	neeraj.chadawar@axissecurities.in
2	PreeyamTolia	Research Analyst	FMCG and Retail, Real Estate	preeyam.tolia@axissecurities.in
3	Omkar Tanksale	Research Analyst	IT, Telecom, Internet	omkar.tanksale@axissecurities.in
4	Uttamkumar Srimal	Research Analyst	Cement, Infra, Railway	uttamkumar.srimal@axissecurities.in
5	Ankush Mahajan	Research Analyst	Pharmaceutical, Hospital, Hotel	ankush.mahajan@axissecurities.in
6	Dnyanada Vaidya	Research Analyst	BFSI	dnyanada.vaidya@axissecurities.in
7	Aditya Welekar	Research Analyst	Metal and Mining, Power Utilities	aditya.welekar@axissecurities.in
8	Sani Vishe	Research Analyst	Chemicals Capital Goods, Mid-cap	sani.vishe@axissecurities.in
9	Eesha Shah	Research Analyst	Real Estate, Special Situation	eesha.shah@axissecurities.in
10	Shridhar Kallani	Research Associate	Auto and Auto ancillaries	shridhar.kallani@axissecurities.in
11	Shikha Doshi	Research Associate	Cement, Infra, Railway	shikha.doshi@axissecurities.in
12	SuhaneeShome	Research Associate	FMCG and Retail	suhanee.shome@axissecurities.in
13	Shivani More	Research Associate	Chemicals Capital Goods, Mid-cap	shivani.more@axissecurities.in
14	Pranav Nawale	Research Associate	BFSI	pranav.nawale@axissecurities.in
15	Darsh Solanki	Research Associate	Metal and Mining, Power Utilities	darsh.Solanki@axissecurities.in
16	Arundhati Bagchi	Research Associate	Database Analyst, Economy	Arundhati.Bagchi@axissecurities.in