

17 November 2024

India | Equity Research | Q2FY25 results review

PNC Infratech

Infrastructure

A huge setback; Earnings to take a hit

PNC Infrastructure (PNC) reported weak set of numbers with revenue dipping 32% YoY, EBITDA margins falling 200bps and consequently APAT declining 42% YoY on the back of: 1) prolonged intense monsoon; 2) low executable order book (OB); and 3) delay in receiving AD. FY25's earnings growth outlook remains bleak with PNC being debarred from bidding for projects from NHA and MoRTH, resulting in an uncertain OB buildup for the near future. The OB buildup would be a key rating monitorable. The KKR transaction has remained on track with 10 assets to be monetised by FY25 and the remaining two possibly in early FY26. With the uncertain order inflow (OI) for the remainder of the year on account of missing out on the bidding pipeline from NHA till Oct'25, we downgrade to **HOLD** with a TP of **INR 307**.

Banned by NHA from bidding for a year

PNC was debarred from bidding by NHA for a timeline of one-year, effective Oct'24, due to bribery case filed by CBI. Still, PNC has remained firm of securing OI of INR 130bn–140bn by FY25 (H2FY25 OI stands at INR 60bn–70bn).

A weak quarter

PNC reported adj. revenue of INR 11.4bn (-32% YoY) in Q2FY25 and saw its adj. EBITDA drop by 200bps YoY to 11.6%. Adj. PAT to INR 809mn. (-42%YoY). PNC guides for a 15–20% dip in YoY revenues and 12.5% EBITDA margin for FY25.

Uncertainty in OI

The company has submitted eight bids worth INR 110bn across railways and city development projects with central and state authorities. Moreover 12 bids have been identified worth INR 140bn to bid from other authorities.

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.

Downgrade to HOLD with revised TP of INR 307

With the company to miss out on bidding from NHA's strong pipeline till Oct'25, resulting in uncertain OI for the year, we downgrade to **HOLD** with **TP INR 307**.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	70,238	74,022	63,032	69,327
EBITDA	9,169	9,804	7,695	8,116
EBITDA Margin (%)	0.1	0.1	0.1	0.1
Net Profit	5,745	6,271	4,828	5,059
EPS (INR)	22.4	24.4	18.8	19.7
EPS % Chg YoY	0.3	0.1	(0.2)	0.0
P/E (x)	13.4	12.2	15.9	15.2
EV/EBITDA (x)	5.8	5.0	6.7	6.0
RoCE (%)	0.2	0.2	0.1	0.1
RoE (%)	0.2	0.1	0.1	0.1

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Market Data

Market Cap (INR)	77bn
Market Cap (USD)	908mn
Bloomberg Code	PNCL IN
Reuters Code	PNCI BO
52-week Range (INR)	575 /296
Free Float (%)	44.0
ADTV-3M (mn) (USD)	4.9

Price Performance (%)	3m	6m	12m
Absolute	(34.9)	(29.6)	(6.1)
Relative to Sensex	(33.0)	(35.7)	(25.6)

ESG Score	2022	2023	Change
ESG score	67.0	NA	NA
Environment	50.7	NA	NA
Social	67.1	NA	NA
Governance	77.1	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E
Revenue	(17)
EBITDA	(13)
EPS	(12)

Previous Reports

13-08-2024: [Q1FY25 results review](#)

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

Outlook and valuation

Having being debarred from bidding by NHAI till Oct'24, PNC has missed out on building its OB from the massive pipeline that NHAI has in prospect. As a result of this, we expect PNC to aggressively pursue projects across other authorities and verticals to build its OB. To start with, the company has already put in bids for eight projects and has evaluated 12 more opportunities across different verticals and authorities.

We cut our estimates on the back of: 1) uncertainty in OB buildup; 2) lower execution in H1 given a smaller executable OB.

Overall, after baking in the recent developments along with lower execution than our estimates, we downgrade the stock to **HOLD** from Add with an SoTP-based TP of INR 307.

Upside risk: Healthy order inflow as per the management estimates along with Increased pace of execution leading to sharp rise in earnings

Downside risk: Lower OI, delay in receipt of appointed dates along with slow pace of execution

Exhibit 1: SoTP-based valuation

INR mn	Basis of valuation	PAT/NPV/Equity value	Multiple	Valuation	Per share
EPC	PEx FY26E	4,970	7	34,790	136
BOT	NPV of FCFE	4,693	1.0	4,693	18
HAM	1.4x equity invested	28,003	1.4	39,205	153
Total				78,687	307
Shares outstanding				257	

Source: I-Sec research

Exhibit 2: Revised estimates for FY25

Particular	FY25E		
	Previous	Revised	Var (%)
Revenue	75,533	63,032	-17%
EBIDTA	8,881	7,695	-13%
PAT	5,486	4,828	-12%

Source: I-Sec research

Key conference call highlights

OB

- Standing strong at INR 199bn, as of Sep'24, including INR 68bn awaiting appointed dates; 2.6 times FY24 revenue.
- Subdued execution: H1FY25 execution bottlenecked due to –
 - Slow awarding activity from MoRTH/NHAI over the past 1.5–2 years.
 - Active monsoon affecting construction, particularly in the water sector.
 - Delays in appointed dates due to land acquisition hurdles.

Project updates

- Achieved Provisional Completion Certificate for four projects.
- Secured financial closure for three HAM projects, with documentation submitted for another.
- Equity investment in ongoing/awarded HAM projects stands at INR 22 bn, with an additional INR 8.7bn needed over the next 2–3 years.
- Asset monetisation of 12 road assets (11 HAM & 1 BOT toll) progresses as planned. Aiming to finalise on 10 of 12 assets by FY25-end; the remaining two targeted for Q1FY26 completion.

Outlook

- Revised FY25 guidance: Anticipated revenue decline of 15–20% YoY. EBITDA margin expected to remain ~12–12.5%.
- FY26 guidance: Up to 30% revenue growth YoY with EBITDA margin anticipated ~13%.
- OI target: INR 130bn–150bn for FY25; with INR 68bn already secured.
- Strategic focus: Securing projects from non-NHAI/MoRTH authorities such as state governments and railways. Plans to submit bids for projects in emerging sectors like area development, railways, and water treatment.

Other highlights

- MoRTH one-year ban: PNC is exploring options like appeal or mitigation regarding the one-year ban by MoRTH, with further information to be shared post-intimation to stock exchanges.
- Reliance on appointed dates: Success in achieving FY26 targets relies heavily on receiving appointed dates for current projects, especially the expected eight by Dec'24.
- Credit rating: Stable at CARE AA+ (long term) and CARE A1+ (short term), with a 'stable' outlook. Many project SPVs hold strong ratings too.
- Capex: Adjusted down to INR 300mn–400mn for FY25 and INR 1,000–1,200mn for FY26.
- Diversification: Active steps toward diversifying beyond roads and highways, highlighted by recent CIDCO area development project win and bids in railways, water, and industrial sectors.

Exhibit 3: HAM assets portfolio

Project	State / Stretch	Authority	Status	Total project cost (INR mn)	Invested Equity (INR mn)
Dausa-Lalsot *	Raj/ NH11A	NHAI	COD	8,200	650
Aligarh-Kanpur *	UP / NH-91	NHAI	COD	11,100	1,310
Jhansi-Khajuraho (Pkg II) *	UP & MP / NH 75/76	NHAI	COD	12,620	1,040
Chitradurga-Davanagere *	Karnataka / NH 48	NHAI	COD	13,380	1,070
Jhansi-Khajuraho (Pkg I) *	UP & MP / NH 75/76	NHAI	COD	13,420	1,280
Jagdishpur-Faizabad *	UP / NH-330 A	NHAI	COD	13,110	1,400
Chakeri-Allahabad *	UP / NH 2	NHAI	COD	20,180	1,930
Mitrasen to Kanpur *	UP / NH-91	NHAI	COD	17,900	1,940
Unnao-Lalganj *	UP / NH-232 A	NHAI	PCOD	14,910	1,580
Meerut – Nazibabad *	UP / NH-119	NHAI	PCOD	12,070	1,280
Challakere-Hariyur *	Karnataka / NH 150 A	NHAI	PCOD	10,230	1,140
Kanpur-Lucknow (Pkg I)	UP / NH-27	NHAI	UC	16,180	1,310
Kanpur-Lucknow (Pkg II)	UP / NH-31/25	NHAI	UC	16,620	1,450
Sonauli- Gorakhpur	UP / NH-29E	NHAI	UC	16,110	850
Mathura - Gaju Village (Pkg- 1B)	UP/ NH-530B	NHAI	UC	9,940	670
Hardoi	UP / NH-731	NHAI	UC	9,480	940
Gaju Village- Devinagar (Pkg-1C)	UP/ NH-530B	NHAI	UC	8,190	820
Akkalkot Pkg-II (Badadal-Maradgi S)	MH & KN / NH-150C	NHAI	UC	17,330	910
Singraur Uphar - Baranpur Kadipur Ichauli (Package III)	UP / NH-731A	MORTH	UC	9,290	490
Greenfield Varanasi - Ranchi - Kolkata (Pkg 2)	Bihar / Greenfield	NHAI	FC	10,300	30
Greenfield Varanasi - Ranchi - Kolkata (Pkg 3)	Bihar / Greenfield	NHAI	FC	12,970	50
Greenfield Varanasi - Ranchi - Kolkata (Pkg-6)	Bihar / Greenfield	NHAI	FC	14,660	50
4 laning of Western Bhopal Bypass	MP / NH-46 / SH-28	MPRDC	FC	13,800	-
				3,01,990	22,190

Source: I-Sec research

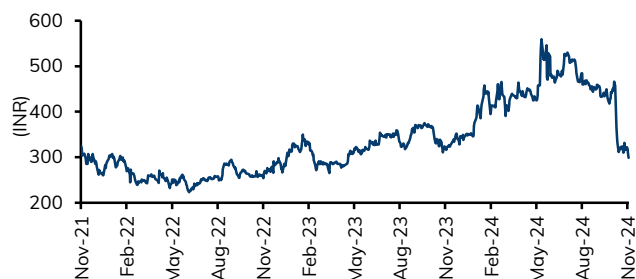
Equity Requirement over the next 2-3 years of approximately INR 8.7 Bn for all HAM projects

Exhibit 4: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	56.1	56.1	56.1
Institutional investors	38.9	37.2	35.6
MFs and others	26.0	25.3	24.5
FIs/Banks	0.2	0.0	0.0
Insurance	0.8	0.9	0.8
FII	11.9	11.0	10.3
Others	5.0	6.7	8.3

Source: Bloomberg

Exhibit 5: Price chart



Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	70,238	74,022	63,032	69,327
Operating Expenses	3,359	3,556	3,998	4,398
EBITDA	9,169	9,804	7,695	8,116
EBITDA Margin (%)	0.1	0.1	0.1	0.1
Depreciation & Amortization	1,100	1,033	904	964
EBIT	8,069	8,771	6,790	7,152
Interest expenditure	(638)	(658)	(699)	(751)
Other Non-operating Income	383	278	477	483
Recurring PBT	7,814	8,391	6,568	6,884
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,069	2,120	1,741	1,824
PAT	5,745	6,271	4,828	5,059
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	370	2,223	-	-
Net Income (Reported)	6,115	8,493	4,828	5,059
Net Income (Adjusted)	5,745	6,271	4,828	5,059

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	34,841	46,691	43,910	44,184
of which cash & cash eqv.	3,734	7,110	8,586	5,959
Total Current Liabilities & Provisions	14,116	17,562	12,320	13,621
Net Current Assets	20,725	29,129	31,590	30,563
Investments	20,550	21,048	21,756	27,756
Net Fixed Assets	5,219	4,633	4,129	4,365
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	62	62
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	46,494	54,810	57,536	62,745
Liabilities				
Borrowings	600	234	5,147	5,647
Deferred Tax Liability	-	-	33	67
provisions	139	53	46	50
other Liabilities	6,339	6,710	-	-
Equity Share Capital	513	513	513	513
Reserves & Surplus	38,903	47,300	51,798	56,467
Total Net Worth	39,416	47,813	52,311	56,980
Minority Interest	-	-	-	-
Total Liabilities	46,494	54,810	57,536	62,745

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	15,015	18,928	10,173	11,232
Working Capital Changes	3,565	5,113	993	1,595
Capital Commitments	581	447	462	1,200
Free Cashflow	14,433	18,481	9,711	10,032
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	581	447	462	1,200
Issue of Share Capital	-	-	-	-
Interest Cost	(638)	(658)	(699)	(751)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(210)	(270)	(330)	(390)
Others	(10,599)	(11,056)	(724)	(4,298)
Cash flow from Financing Activities	(11,447)	(11,984)	(1,753)	(5,439)
Chg. in Cash & Bank balance	3,568	6,944	8,420	5,793
Closing cash & balance	3,734	7,110	8,586	5,959

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	22.4	24.4	18.8	19.7
Adjusted EPS (Diluted)	22.4	24.4	18.8	19.7
Cash EPS	26.7	28.5	22.3	23.5
Dividend per share (DPS)	(0.7)	(0.9)	(1.1)	(1.3)
Book Value per share (BV)	153.6	186.4	203.9	222.1
Dividend Payout (%)	0.0	0.0	(0.1)	(0.1)
Growth (%)				
Net Sales	0.1	0.1	(0.1)	0.1
EBITDA	0.2	0.1	(0.2)	0.1
EPS (INR)	0.3	0.1	(0.2)	0.0
Valuation Ratios (x)				
P/E	13.4	12.2	15.9	15.2
P/CEPS	11.2	10.5	13.4	12.7
P/BV	1.9	1.6	1.5	1.3
EV / EBITDA	5.8	5.0	6.7	6.0
P / Sales	1.1	1.0	1.2	1.1
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	0.4	0.4
Net Debt / Equity (x)	(0.6)	(0.6)	(0.5)	(0.5)
Net Debt / EBITDA (x)	(2.6)	(2.8)	(3.3)	(3.5)
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	14.4	16.3
Inventory Turnover Days	42	39	35	40
Receivables Days	104	99	74	84
Payables Days	37	47	30	35

Source Company data, I-Sec research

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