

Seasonality & Lower Executable Order Book Impacts Performance; Retain HOLD

Est. Vs. Actual for Q2FY25: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**
Revision in Estimates post Q2FY25

FY25E/FY26E: Revenue: -17%/-13%; EBITDA: -13%/-10%; PAT: -13%/-13%

Recommendation Rationale

- **Robust & Diversified Order Book:** PNCIL has an order book valued at Rs 19,910 Cr (as of 30th Sep 2024), which is over 2.5 times FY24 revenue. In Oct'24, the company received an LOA for one EPC project worth Rs 2,039 Cr from CIDCO and two EPC projects worth Rs 4,630 Cr from MSRDC in Maharashtra. The order book is well-diversified between roads and water projects, indicating revenue visibility for the next 2-2.5 years.
- **Order Inflow of Rs 6,000-8,000 Cr Expected in H2FY25:** The management anticipates an additional order inflow of Rs 6,000-8,000 Cr in H2FY25, supported by a robust bid pipeline of Rs 25,000 Cr. The company has already bid for projects worth Rs 11,000 Cr from authorities other than MoRTH and NHAI and will be bidding for projects worth Rs 14,000 Cr in the coming quarter. In line with its diversification strategy, the company is expanding its focus to include bids in the railway and water segments across both state and central projects, aiming to reduce reliance on the road sector and create a more resilient revenue base.
- **Revision in Revenue estimates:** Given the project delays amounting to Rs 6,836 Cr owing to the non-receipt of the appointed date and a slowdown in new project awards due to the Ministry of Road Transport and Highways (MoRTH) ban, FY25 revenue is projected to be adversely impacted. Management anticipates a rebound in project execution in H2FY25. However, it has revised guidance to reflect a 15-20% revenue decline for FY25, with a recovery leading to approximately 30% growth in FY26. In line with this, we are revising our revenue estimates downward for both FY25 and FY26.

Sector Outlook: Positive

Company Outlook & Guidance: For FY25, the company expects revenue to de-grow by 15-20% due to delays in land acquisition and continued monsoon impact in the execution. EBITDA margins are expected to be between 12-12.5%.

Current Valuation: 7x FY26 EPS (Earlier Valuation: 12x FY26 EPS) and HAM assets 1.2x book value

Current TP: Rs 300/share (Earlier TP: Rs 465/share)

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

Alternative BUY Ideas from our Sector Coverage: H.G Infra (TP: Rs 1800/share), G R Infraprojects Ltd (TP: 1760/share), J Kumar Infra (TP: 950/share)

Financial Performance

The company reported revenue of Rs 1,149 Cr, down 32% YoY, due to slow project execution caused by extended monsoons, delays in awarding AD, and slow awarding activity. It recorded an EBITDA of Rs 134 Cr, down 41% YoY, and an APAT of Rs 81 Cr, down 42% YoY. The company posted an EBITDA margin of 11.6% in Q2FY25 (vs. an estimate of 12.5%), compared to 13.4% in Q2FY24.

Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1149	-34%	-32%	1558	-26%
EBITDA	134	-77%	-41%	195	-32%
EBITDA Margin	11.6%	(2240 bps)	(180 bps)	12.5%	(90 bps)
Net Profit	81	-81%	-42%	125	-35%
EPS (Rs)	3.2	-81%	-42%	5.0	-37%

Source: Company, Axis Securities Research

(CMP as of 14th November 2024)

CMP (Rs)	299
Upside /Downside (%)	0%
High/Low (Rs)	575/ 296
Market cap (Cr)	7673
Avg. daily vol. (6m) Shrs.	11,60,998
No. of shares (Cr)	25.6

Shareholding (%)

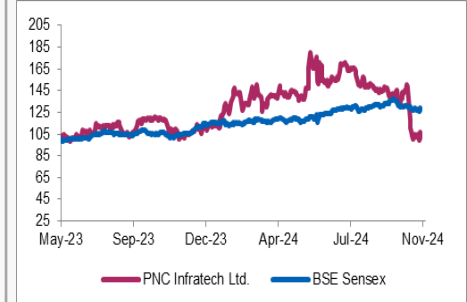
	Mar-24	Jun-24	Sep-24
Promoter	56.1	56.1	56.1
FIIs	11.9	10.8	10.1
MFs / UTI	26.0	25.3	24.5
Banks / FIIs	0.0	0.0	0.0
Others	6.1	7.8	9.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	7,699	6,209	7,451
EBITDA	1,277	1,146	961
Net Profit	850	764	608
EPS (Rs)	33	30	24
PER (x)	15	10	13
P/BV (x)	2.6	1.4	1.2
EV/EBITDA (x)	9.7	6.6	7.9
ROE (%)	19%	15%	10%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-17%	-13%
EBITDA	-13%	-10%
PAT	-13%	-13%

Relative Performance


Source: Ace Equity, Axis Securities Research

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Outlook

The road sector is expected to receive a significant boost as the government scales up infrastructure investments, as outlined in the Budget 2024-25. In response, the company is actively exploring opportunities in railway projects to diversify its revenue streams and mitigate sector-specific risks. The first half of FY25 was challenged by factors such as elections, extreme heat conditions, and delays in receiving appointed dates (AD) for pending projects. Additionally, the ongoing MoRTH ban has added uncertainty to the company's growth prospects, impacting near-term project wins. Consequently, we have revised our revenue estimates for FY25 and FY26. We look forward to improved performance as the company advances through these challenges.

Valuation & Recommendation

The stock is currently trading at an implied PE of 7x FY26E EPS. We maintain our **HOLD** recommendation on the stock with a TP of Rs 300/share, implying a 0% upside from the CMP.

Key Concall Highlights

- **Order Book & Order Inflow:** The current executable order book stands at Rs 19,910 Cr, with 84% attributed to Highway & Expressway projects and the remaining 16% 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 6 projects worth Rs 6,836 Cr where AD is pending 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, 11 projects are operational, 8 are under construction, and 4 have completed financial closure.
- **Equity Investments in Subsidiaries:** The total equity requirement is Rs 3,092 Cr, of which Rs 2,220 Cr has been invested to date. The balance required for HAM projects is Rs 872 Cr, expected to be Rs 486 Cr in FY25, Rs 256 Cr in FY26, and Rs 132 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 divestment 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 5,050 Cr of tranche 1 to be received by the end of FY25 and for tranche 2 by Q1FY26.
- **Jal Jivan Mission:** The company expects Rs 1,200 Cr of revenue from water projects in FY25.
- **Working Capital Days:** The company's working capital stood at 144 days in Q2FY25, up from 121 days in Q1FY25. Capex is projected to range between Rs 30-40 Cr in FY25 and Rs 100-120 Cr in FY26. As of 30th Sep'24, mobilization advance stood at Rs 290 Cr, retention money at Rs 140 Cr, debtors at Rs 1,210 Cr, total standalone debt at Rs 410 Cr, and cash and bank balances at Rs 640 Cr.
- **MoRTH Disqualification:** MoRTH asked the company and its subsidiary companies (SPVs), namely PNC Khajuraho Highways Private Limited and PNC Bundelkhand Highways Private Limited, to appear before MoRTH. Upon hearing the company, SPVs, and NHAI, MoRTH, in its order dated October 18, 2024, disqualified the company and the two SPVs from participating in the tender process of the Ministry for one year, effective from October 18, 2024.
- The company and the two SPVs filed three separate writ petitions before the Hon'ble High Court of Delhi, challenging the aforesaid order of MoRTH dated October 18, 2024 (impugned order) on October 21, 2024, along with three separate applications requesting the Hon'ble High Court to pass ad-interim orders staying the effect, operation, and implementation of the impugned order until the disposal of the writ petitions. The said petitions have been dismissed by the Hon'ble High Court vide judgment dated October 29, 2024. However, the company is contemplating challenging the above judgment before the Division Bench of the Hon'ble High Court going forward.

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	7,447	8,564	-17%	-13%
EBITDA	1,313	1,070	1,313	1,070	-13%	-10%
PAT	883	695	883	695	-13%	-13%

Source: Company, Axis Securities Research

Result Review Q2FY25

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Change (QoQ)	% Change (YoY)
Sales	1,149	1,744	1,693	-34%	-32%
Other Op. Inc	0	0	0		
Total Revenue	1,149	1,744	1,693	-34%	-32%
Expenditure					
Cost of material consumed	851	975	1258	-13%	-32%
Change in Inventory	0	0	0	0%	0%
Employee Cost	88	85	87	4%	1%
Other Expenses	76	91	120	-16%	-36%
Total Expenditure	1015	1151	1465	-12%	-31%
EBITDA	134	594	228	-77%	-41%
	11.6%	34.0%	13.4%		
Oth. Inc.	13	9	6	50%	125%
Interest	15.2	12.9	18.7	18%	-19%
Depreciation	23	22	26	0%	-12%
Exceptional Item	109	567	189	-81%	-42%
PBT	28	146	49	-81%	-43%
Tax	81	421	140	-81%	-42%
PAT	3.2	16.4	5.5	-81%	-42%
EPS (Rs.)	1,149	1,744	1,693	-34%	-32%

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	7,061	7,699	6,209	7,451
Other operating income	0	0	0	0
Total income	7,061	7,699	6,209	7,451
Cost of materials consumed	5,262	5,548	4,312	5,559
Contribution (%)	25.5%	27.9%	30.6%	25.4%
Other Expenses	845	873	752	931
Operating Profit	954	1,277	1,146	961
Other income	38	28	38	40
PBIDT	992	1,305	1,184	1,001
Depreciation	110	103	102	117
Interest & Fin Chg.	64	66	53	63
Pre-tax profit	818	1,136	1,029	822
Tax provision	207	286	265	214
PAT	611	850	764	608

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	6,070	6,498	7,079	7,942
Net Block	525	466	414	397
Right to use assets	9	8	8	8
CWIP	0	0	0	0
Investments	1035	1664	2304	2634
Wkg. cap. (excl cash)	1991	1782	1483	1772
Cash / Bank balance	373	713	1155	1117
Other assets	2137	1865	1715	2015
Capital employed	6,070	6,498	7,079	7,942
Equity capital	51	51	51	51
Reserves	3890	4730	5494	6102
Minority Interests	0	0	0	0
Borrowings	450	382	382	382
Other Liabilities	1679	1334	1152	1407

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PBT	818	1136	1029	822
Depreciation	110	103	102	117
Interest Expense	64	66	53	63
Changes in Working Capital	-935	257	267	-334
Others	6	-10	-38	-40
Tax Paid	-217	-291	-265	-214
Net Cash from Operations	(153)	1261	1147	414
Capex	-62	-48	-50	-100
Investment	-163	-722	-640	-330
Others	112	-8	38	40
Net Cash from Investing	(114)	(779)	(652)	(390)
Borrowings	-83	30	0	0
Interest Expense	-64	-66	-53	-63
Dividend paid	-13	-13	0	0
Others	312	87	0	0
Net Cash from Financing	153	38	(53)	(63)
Net Change in Cash	(114)	520	442	(38)
Opening cash	407	293	616	1059
Closing cash	293	813	1059	1020

Source: Company, Axis Securities Research

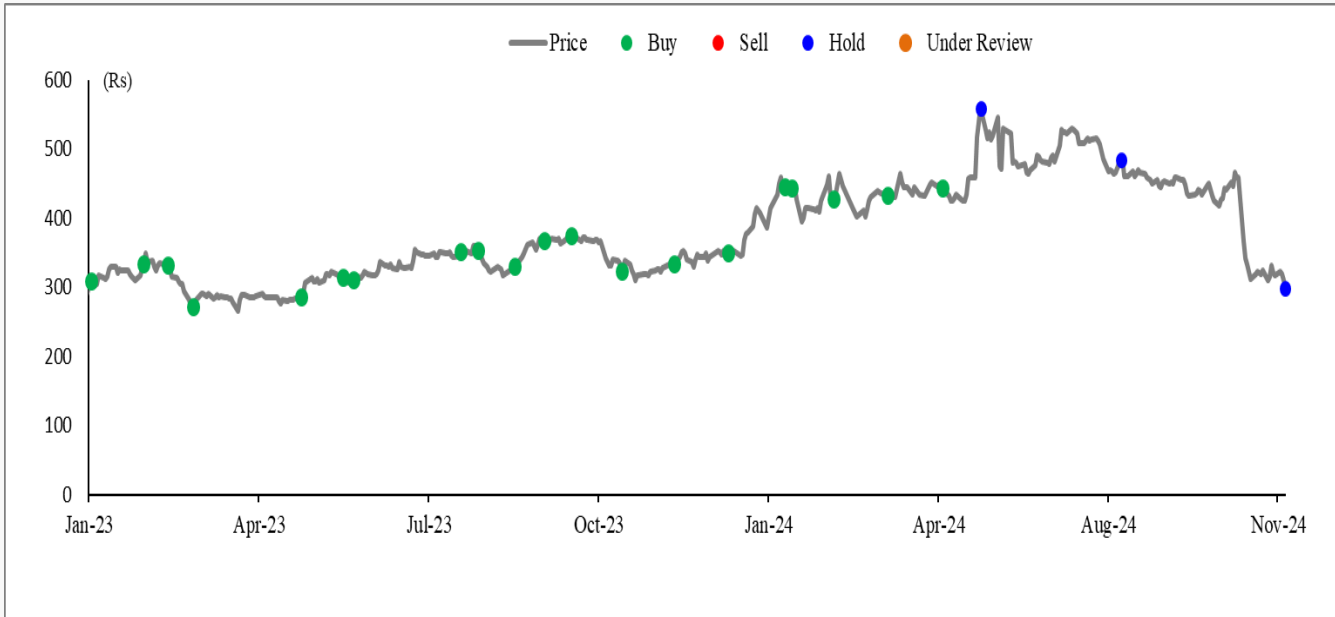
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Growth Indicator				
Sales Growth	12%	9%	-19%	20%
EBITDA Growth	21%	34%	-10%	-16%
PAT Growth	37%	39%	-10%	-20%
PROFITABILITY RATIOS				
EBITDA Margin	13.5%	16.6%	18.5%	12.9%
Adjusted net margin	8.7%	11.0%	12.3%	8.2%
EFFICIENCY RATIOS (x)				
Capital Turnover	1.79	1.61	1.12	1.21
Total Asset Turnover	1.52	1.41	0.99	1.08
Fixed Asset Turnover	13.4	16.5	15.0	18.8
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	0.05	0.04
Net debt to equity	0.02	-0.07	-0.14	-0.12
Interest coverage	15	19	21	15
PER SHARE DATA				
Diluted EPS (Rs)	23.8	33.1	29.8	23.7
Book value per share (Rs)	154	186	216	240
DPS (Rs)	0.5	0.5	0.0	0.0
Return Ratios				
Return on equity	17%	19%	15%	10%
Return on capital employed	20%	24%	18%	13%
VALUATION RATIOS				
P/E	19	15	10	13
P/BV	2.9	2.6	1.4	1.2
EV/EBITDA	11.9	9.7	6.6	7.9

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	18-Nov-24	HOLD	300	Result Update
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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