

PNC Infratech Ltd - BUY

Strong performance continues

PNC Infratech Ltd (PNC) reported strong set of numbers with 54% topline growth to Rs.73 bn. Its operating margin continues to remain healthy at 14.0%. As on 31st Dec 2018, PNC order book remained robust at ~Rs.80bn (excluding projects worth Rs.58 bn constituting three HAM projects and a package of Nagpur-Mumbai Expressway). PNC has received appointed dates for most of the pending HAM projects and also for the Nagpur-Mumbai Expressway, which would support the topline growth in FY20E and beyond. While the order book is strong, considering the massive bid pipeline, the company is selectively evaluating opportunities. It has currently bid for an expressway project and four Airport Modernisation projects where bids are yet to open. Considering the robust order book and bid pipeline, we expect PNC to clock ~40% topline CAGR over FY18-21E. We also expect earnings growth to remain healthy on the back of high margin order book under execution. PNC's EPC business is currently trading at 9.9x FY21E P/E. We recommend a BUY rating on the stock for target of Rs.180 (based on SOTP valuation).

Massive Order book places PNC in a sweet spot; Execution holds the key

While PNC has been hands full as far as order book is concerned, the execution has been dragging due to land acquisition issues in certain projects. With most of the projects falling on track, the execution run-rate has improved drastically. We believe, the company is very well placed to deliver industry leading growth over the next couple of years. Also, with the strong order pipeline and PNC's comfortable balance sheet position, the company may look forward to bag some decent-size projects in the medium term.

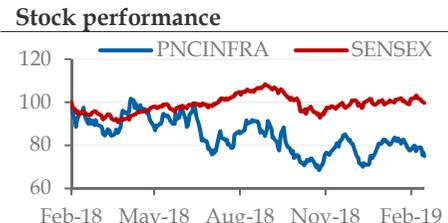
CMP (Rs) 137		12-mths Target (Rs) 180	Upside 31%
Stock data (As on Feb 15, 2019)		Sector: Infrastructure	
Sensex:	35,809		
52 Week h/l (Rs)	200 / 123		
Market cap (Rs mn)	35,158		
Enterprise value (Rs mn)	34,958		
6m Avg t/o (Rs mn):	24.7		
FV (Rs):	2		
Div yield (%):	0.4		
Bloomberg code:	PNCL IN		
BSE code:	539150		
NSE code:	PNCINFRA		
Shareholding pattern (As of Dec'18 end)			
Promoter		56.1%	
FII+DII		29.0%	
Others		14.9%	

Exhibit 1: Result table (Standalone)

(Rs m)	Q3 FY19	Q3 FY18	% yoy	Q2 FY19	% qoq
Revenue	7,270	4,725	53.9	5,586	30.1
Operating Profit	1,021	663	54.1	746	36.9
OPM (%)	14.0	14.0	2 bps	13.4	69 bps
Other Income	68	57	20.4	61	12.0
Depreciation	(241)	(196)	23.5	(206)	17.2
Interest	(187)	(65)	188.0	(153)	22.2
PBT	661	459	43.9	448	47.6
Tax	(187)	472	(139.7)	(96)	94.1
PAT	474	931	(49.1)	351	34.9

Source: Company, YSL

Exhibit 2: Status on key projects

Project	Type	Status
Nagina-Kashipur	EPC	Appointed Date received and project is under-construction
Koliwar-Bhojpur	EPC	Appointed Date received and project is under-construction
Bhojpur-Buxar	EPC	Appointed Date received and project is under-construction
Varanasi-Gorakhpur	EPC	Appointed Date received and project is under-construction
Aligarh-Moradabad	EPC	Appointed Date received and project is under-construction
Varanasi-Gorakhpur	EPC	Appointed Date received and project is under-construction
Sansarpur-Gobindpur	EPC	Appointed Date received and project is under-construction
Gobindpur-Mojrapur	EPC	Appointed Date received and project is under-construction
Nagpur-Mumbai Expressway	EPC	Appointed Date received on 15th January 2019 and project is under-construction
Dausa-Lalsot-Kathun	HAM	Appointed Date received and project is under-construction
Chitradurga-Davanagere	HAM	Appointed Date received and project is under-construction
Jhansi-Khajuraho (Package	HAM	Appointed Date received and project is under-construction
Jhansi-Khajuraho (Package	HAM	Appointed Date received and project is under-construction
Chakeri to Allahabad	HAM	Financial Closure Achieved, Appointed Date is Awaited
Aligarh-Kanpur Package-II	HAM	Financial Closure Achieved, Appointed Date is Awaited
Challakere to Hariyur section	HAM	Financial Closure Achieved, Appointed Date is Awaited

CONFERENCE CALL HIGHLIGHTS

- ✓ Debt at the end of Q3 FY19 stood at ~Rs.4.5 bn (Rs.3.2 bn towards equipment finance and balance for Working Capital). The company expects debt to increase to ~Rs.5.25 bn by end-F19. However, it is likely to normalize to Rs.4-5 bn by end of FY20.
- ✓ The three HAM projects that are facing issues related to achieving appointed date is primarily due to issues like tree cutting and utility shifting. The Company expects to receive appointed dates soon.
- ✓ Outstanding orderbook in the key projects are a) Koliwar-Bhojpur is Rs.3.9 bn, b) Bhojpur-Buxar is Rs.3.7 bn, and c) Varanasi-Gorakhpur is Rs.4.5 bn.
- ✓ While the company has commenced execution in the Purvanchal expressway project, the revenue contribution has been insignificant for now. The company expects execution to pick up in this project and is targeting Rs.1bn revenues from these packages.
- ✓ Based on the massive orderbook and contribution starting from key projects, PNC is projecting topline of Rs.40 bn in FY20.
- ✓ The Company has received mobilization advance of Rs.5.4 bn for its projects. However, for some projects like Purvanchal expressway and three HAM projects mobilization advance would be receivable in next few months. However, as the rate of such advance is currently high at 12%, PNC may not avail the same and instead finance through borrowing on its own.
- ✓ Effective tax rate for FY19E is likely to be at ~21-24% and for FY20 at 26~29% respectively.
- ✓ The Capex for Q4 FY19 is likely to be at Rs.750 mn. For FY20, the Company is targeting to spend Rs.1-2 bn.

Exhibit 3: Valuation summary (Standalone)

Y/e 31 Mar (Rs m)	FY18	FY19E	FY20E	FY21E
Revenues	18,566	26,363	38,227	49,695
yoy growth (%)	9.9	42.0	45.0	30.0
Operating profit	3,188	3,926	5,471	6,985
OPM (%)	17.2	14.9	14.3	14.1
Reported PAT	2,510	2,210	2,872	3,557
yoy growth (%)	19.7	(12.0)	30.0	23.9
EPS (Rs)	9.8	8.6	11.2	13.9
P/E (x)	14.0	15.9	12.2	9.9
EV/EBITDA (x)	11.0	9.3	7.2	5.8
Debt/Equity (x)	0.1	0.3	0.2	0.2
RoE (%)	14.9	11.6	13.4	14.6

Source: Company, YSL

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BUY > 15%

ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

NOT RATED

UNDER REVIEW

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