

PNC Infratech

HOLD

Diversification is the key

Summary

PNC Infratech (PNCL) Q2FY25 operational results were lower than consensus estimates. Numbers were impacted from weak execution as adj. revenue declined by 58% YoY. The decline in revenue was due to delay in appointed date in certain projects & due to peak monsoon in some areas. Company has lowered their revenue guidance to -15% to -20% (earlier -10%) for FY25 as company is now disqualified for 1 year from bidding in MORTH & NHAI tenders. PNCL guides EBITDA margins around 12-12.5%. Company has started the year with strong set of order inflow and is L1 for orders of Rs66bn. Order book at Rs199bn equals to 2.8x TTM Revenue with 70% from road sector & remaining is from irrigation and water. We retain HOLD rating on the stock with & lowered our TP to Rs339, TP implies valuation of 10x FY26E EPS. Stock catalyst is order win, from different state authorities & segments apart from NHAI/MORTH. Company has bidded in 8 tender of Railways, area development projects & airport development projects.

Key Highlights and Investment Rationale

- Q2FY25 Snapshot:** Revenue (standalone) decreased by 32% YoY. Revenue included arbitration awards worth R3.7bn Adj Revenue stood at Rs7bn -58% YoY. EBITDA stood at Rs1.3bn -41% YoY, PAT stood at Rs809mn due to impact on EBITDA.
- Guidance FY25E:** PNCL earlier guided revenue growth of falt to -10% for FY25 which has changed to flat or -15 to -20% now. But the EBITDA margin to remain in range of 12-12.5%. Order inflow is expected to be at Rs130-150bn for FY25E, out of which company has already received order of Rs66.7bn till date; additional inflow of Rs60-80bn expected in FY25.

TP	Rs339
CMP	Rs299
Potential upside/downside	+13%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(33.7)	(35.0)	(6.1)
Rel to Sensex	(28.4)	(33.1)	(25.6)

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	19	27
Consensus	28	28
% difference	(31.3)	(4.5)

Key Stock Data

Bloomberg/Reuters	PNCL IN / PNCL.BO
Sector	Construction
Shares o/s (mn)	257
Market cap. (Rs mn)	76,692
3-m daily avg Trd value (Rs mn)	10.7
52-week high / low	Rs575 / 297
Sensex / Nifty	77,580 / 23,533

Shareholding Pattern (%)

Promoters	56.1
FII	10.1
DII	25.3
Public	8.5

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	63,055	70,608	76,992	64,284	83,194
Change (yoy, %)	28	12	9	(17)	29
EBITDA	7,872	9,539	12,774	7,714	10,399
Change (yoy, %)	16	21	34	(40)	35
EBITDA Margin(%)	12.5	13.5	16.6	12.0	12.5
Adj.PAT	4,478	6,115	8,498	7,334	7,042
EPS (Rs)	17	24	33	28	30
Change (yoy, %)	23.7	36.5	39	(52)	71
PE(x)	17.1	12.5	9	19	11
Dividend Yield (%)	0.2	0.2	0	0	0
EV/EBITDA (x)	9	8	6	9	7
RoE (%)	14	17	19	8	12
RoCE (%)	16	18	22	11	14

Source: IDBI Capital Research

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Conference call takeaways:

- PNCL downward revised its revenue guidance to 15-20% de-growth (vs. earlier guidance of flat to -10%) for FY25E with an EBITDA margin of 12- 12.5% (maintained). For FY26E, the company expects revenue growth of 30% (vs. earlier 15-20%) with an EBITDA margin of 13% (vs. earlier 12-12.5%). Order inflow is expected to be at Rs130-150bn for FY25E, out of which the company has already received orders of Rs66.7bn till date; fresh inflow of Rs60- 80bn is expected in FY25E.
- MoRTH vide its order dated 18th Oct'24, has disqualified PNC Infratech Limited & 2 subsidiaries from participating in any tender process of the ministry for a period of one year with effect from 18th Oct'24. However, PNCL and its two SPVs had filed 3 separate petitions before the honorable High Court of Delhi challenging the aforesaid order of MoRTH but all the 3 petitions were dismissed. However, PNCL is contemplating challenging the above judgment before the Division Bench of the Hon'ble High Court. This ban will not impact its ongoing HAM/BOT monetization and in receiving AD (appointed Date) for already won projects.
- Total equity requirement for 23 HAM projects stood at Rs30.9bn and has already invested Rs22.2bn till Sep'24; Rs8.7bn (Rs4.9bn/Rs2.6bn/Rs1.3bn in H2FY25E/FY26E/FY27E) to be invested over the next 2-3 years through internal accruals.
- Order book stood at Rs199bn (2.8x TTM Revenue); 65% highways & expressways/35% water, canal, area development and railway projects. On a client basis, MoRTH & NHAI/Others stood at 33%/67%. YTD FY25 order Rs66 inflow stood at .7bn. The company has already submitted 8 bids worth Rs110bn other than MoRTH/ NHAI which were floated by State & Central Govt.; bids are yet to open and might take another 1-1.5 months. Further, the company has identified another 12 bids worth Rs140bn from other authorities (excl. NHAI & MoRTH); will bid in the coming months. These 12 bids include 8 bids from railways, 1 bid from UP State Industrial Development Area, 1 from UP Industrial Development Authority, 1 from Airport Southern India and 1 from Maharashtra State Industrial Development Corporation. It will also be looking at opportunities at Amaravati City, AP as the World Bank is granting R150bn for infrastructure development.
- PNCL incurred capex of Rs66mn in H1FY25. It expects a capex of Rs300-400mn (vs. earlier Rs0.8-1 bn)/Rs1-1.2bn in FY25/FY26.

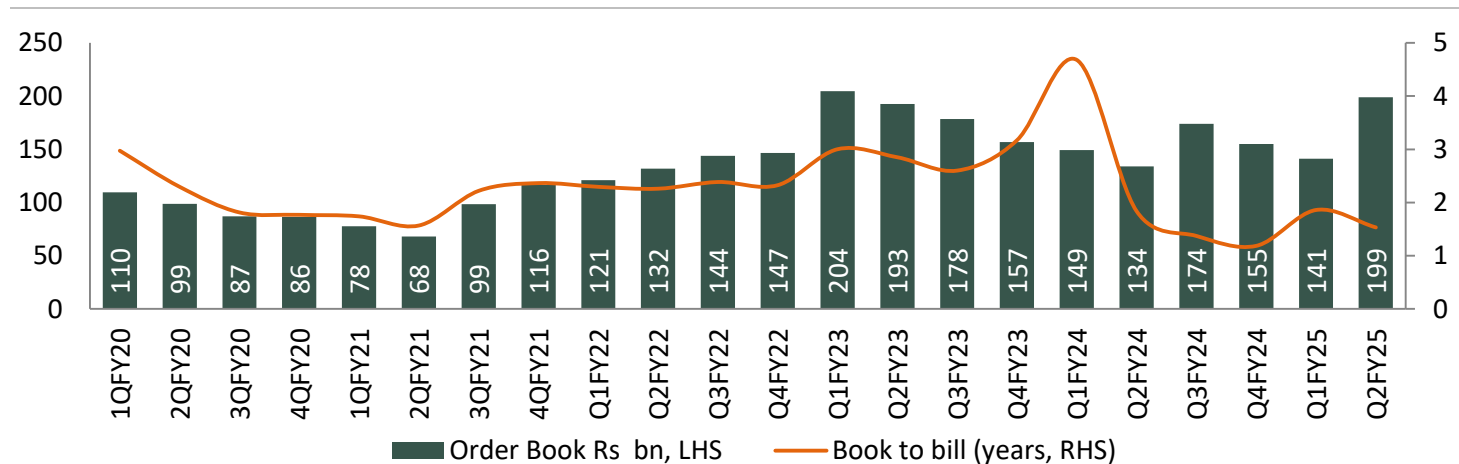
Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q2FY25	Q2FY24	YoY Chg (%)	Q1FY25	QoQ Chg (%)
Net Sales	11,491	16,930	-32	17,444	-34
EBITDA	1,336	2,277	-41	5,935	-77
<i>EBITDA margin (%)</i>	11.6	13.4	-182 bps	34.0	-2240 bps
Other income	129	57	125	86	50
PBIDT	1,465	2,334	-37	6,021	-76
Depreciation	226	257	-12	225	0
Interest	152	187	-19	129	18
Exceptional items	-	-	NA	(3,225)	NA
Adj. pre-tax profit	1,088	1,890	-42	2,442	-55
Tax	279	492	-43	1,457	-81
Reported PAT	809	1,398	-42	986	-18
Adj PAT	809	1,398	-42	2,288	-65

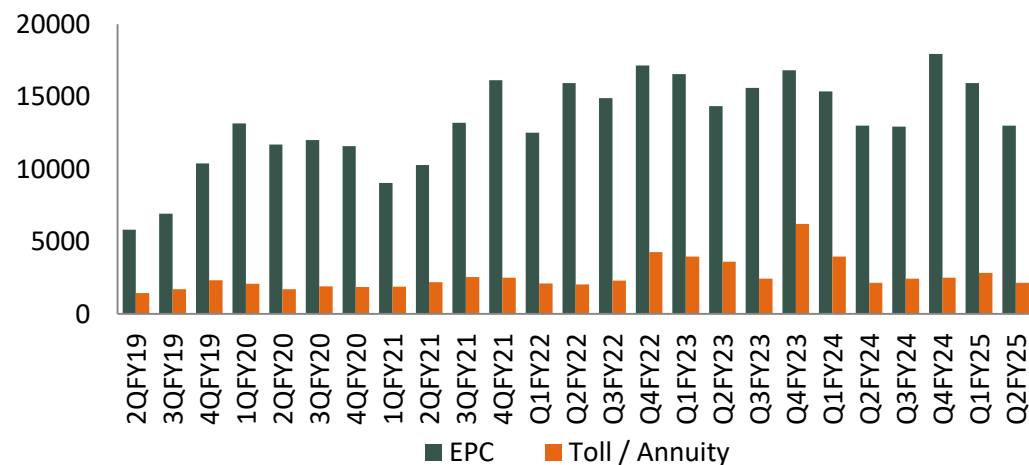
Source: Company

Exhibit 2: Order-book trajectory



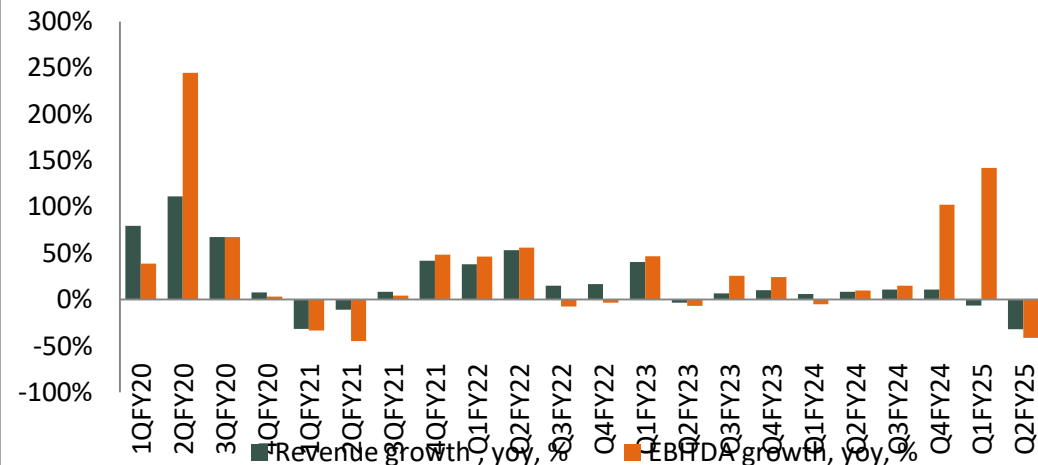
Source: Company

Exhibit 3: Consolidated revenue Breakup: 85% EPC, 15% Toll/ Annuity



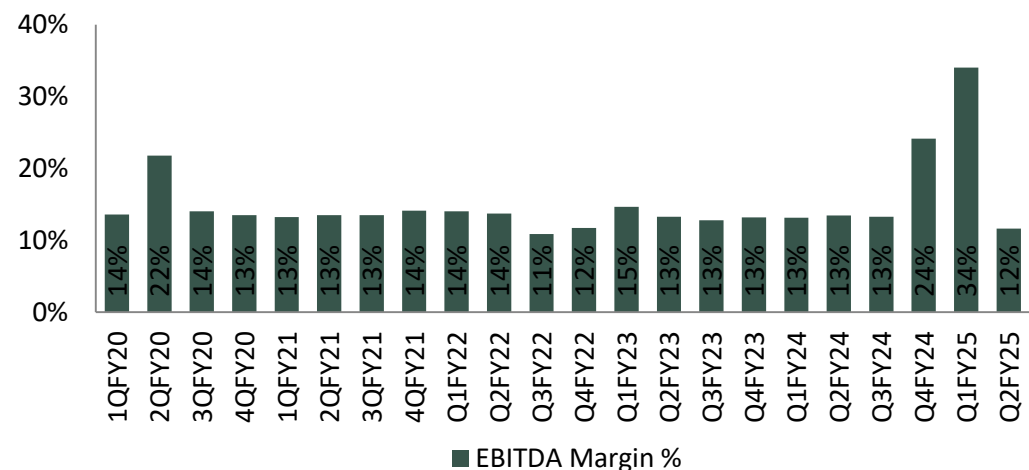
Source : Company

Exhibit 4: Execution down -32% YoY; reported EBITDA down by 41% YoY



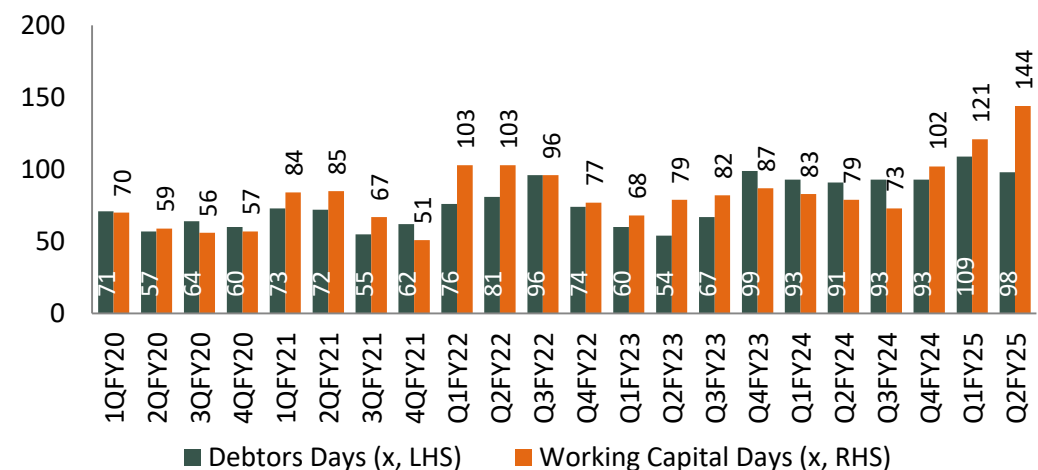
Source : Company

Exhibit 5: EBITDA margin trajectory



Source : Company

Exhibit 6: Q2FY25 Working Capital at 144 days, increased QoQ



Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	49,254	63,055	70,608	76,992	64,284	83,194
<i>Change (yoy, %)</i>	1	28	12	9	(17)	29
Operating expenses	(42,488)	(55,183)	(61,070)	(64,218)	(56,569)	(72,794)
EBITDA	6,766	7,872	9,539	12,774	7,714	10,399
<i>Change (yoy, %)</i>	(11)	16	21	34	(40)	35
<i>Margin (%)</i>	13.7	12.5	13.5	16.6	12.0	12.5
Depreciation	(1,124)	(1,299)	(1,100)	(1,033)	(1,090)	(1,171)
EBIT	5,642	6,573	8,439	11,741	6,624	9,228
Interest paid	(771)	(801)	(638)	(658)	(519)	(348)
Other income	714	542	383	278	474	534
Pre-tax profit	5,585	6,314	8,184	11,361	6,579	9,414
Tax	(1,966)	(1,836)	(2,069)	(2,863)	(2,471)	(2,372)
<i>Effective tax rate (%)</i>	35.2	29.1	25.3	25.2	37.6	25.2
Minority Interest	-	-	-	-	-	-
Net profit	3,619	4,478	6,115	8,498	4,109	7,042
Exceptional items	-	-	-	-	-	-
Adjusted net profit	3,619	4,478	6,115	6,318	7,334	7,042
<i>Change (yoy, %)</i>	(21)	24	37	3	16	(4)
EPS	14.1	17.5	23.8	24.6	28.6	27.4
Dividend per sh	0.5	0.5	0.5	0.5	0.5	0.5
<i>Dividend Payout %</i>	3.5	2.9	2	2	3	2

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	29,085	33,402	39,416	47,813	55,019	61,932
Share capital	513	513	513	513	513	513
Reserves & surplus	28,572	32,889	38,903	47,300	54,505	61,419
Total Debt	4,029	2,299	4,601	3,821	2,821	1,821
Other liabilities	4,334	7,411	6,270	6,710	5,933	7,581
Curr Liab & prov	11,120	9,909	10,417	14,123	11,423	14,075
Current liabilities	11,010	9,893	10,279	14,070	11,359	13,998
Provisions	111	16	139	53	63	76
Total liabilities	19,484	19,619	21,289	24,654	20,177	23,477
Total equity & liabilities	48,569	53,021	60,705	72,467	75,196	85,409
Net fixed assets	6,592	5,894	5,345	4,739	4,649	4,478
Investments	7,465	8,712	10,347	16,638	23,138	26,438
Other non-curr assets	7,301	9,046	10,171	4,383	4,538	4,701
Current assets	27,211	29,370	34,841	46,707	42,871	49,792
Inventories	3,536	4,808	7,644	7,650	6,739	8,672
Sundry Debtors	8,392	12,728	19,055	19,505	14,090	18,234
Cash & Liquid	7,683	5,277	3,734	7,126	11,435	9,436
Other Curr Assets	7,600	6,557	4,408	12,425	10,607	13,450
Total assets	48,569	53,021	60,705	72,467	75,196	85,409

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	5,585	6,314	8,184	11,361	9,804	9,414
Depreciation	1,124	1,299	1,100	1,033	1,090	1,171
Tax paid	(1,998)	(1,751)	(2,166)	(2,912)	(2,471)	(2,372)
Chg in working capital	(2,261)	(6,575)	(9,348)	2,569	5,160	(5,665)
Other operating activities	282	1,592	697	558	45	(185)
Cash flow from operations (a)	2,732	878	(1,533)	12,609	13,629	2,362
Capital expenditure	(1,820)	(546)	(552)	(438)	(1,000)	(1,000)
Chg in investments	(961)	(1,943)	67	(7,363)	(6,500)	(3,300)
Other investing activities	29	1,229	(650)	(63)	320	371
Cash flow from investing (b)	(2,751)	(1,260)	(1,135)	(7,863)	(7,180)	(3,929)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	693	(1,835)	(830)	(1,548)	(1,493)	45
Dividend (incl. tax)	-	(128)	3,043	741	(128)	(128)
Chg in minorities						
Other financing activities	(619)	(464)	(686)	(704)	(519)	(348)
Cash flow from financing (c)	74	(2,427)	1,528	(1,511)	(2,140)	(431)
Net chg in cash (a+b+c)	55	(2,809)	(1,141)	3,235	4,308	(1,998)

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	113	130	154	186	214	241
Adj EPS (Rs)	14.1	17.5	23.8	24.6	28.6	27.4
Adj EPS growth (%)	-21	24	37	3	16	-4
EBITDA margin (%)	13.7	12.5	13.5	16.6	12.0	12.5
Pre-tax margin (%)	11.3	10.0	11.6	14.8	10.2	11.3
Net Debt/Equity (x)	-0.1	-0.1	0.0	-0.1	-0.2	-0.1
ROCE (%)	16	16	18	22	11	14
ROE (%)	13	14	17	19	8	12

DuPont Analysis

Asset turnover (x)	1.1	1.2	1.2	1.2	0.9	1.0
Leverage factor (x)	1.7	1.6	1.6	1.5	1.4	1.4
Net margin (%)	7.3	7.1	8.7	11.0	6.4	8.5

Working Capital & Liquidity ratio

Inventory days	26	28	40	36	38	38
Receivable days	62	74	99	92	80	80
Payable days	62	34	41	53	44	44

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	21.2	17.1	12.5	9.0	18.7	10.9
Price/Book value (x)	2.6	2.3	1.9	1.6	1.4	1.2
EV/Net sales (x)	1.5	1.2	1.1	1.0	1.1	0.8
EV/EBITDA (x)	10.8	9.4	8.1	5.7	8.8	6.6
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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