

JUNE 14, 2019

	13-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,741	(0.0)	6.5	5.3
NIFTY Index	11,914	0.1	6.2	5.0
NSEBANK Index	30,976	0.0	7.4	7.1
NIFTY 500 Index	9,747	(0.0)	5.8	3.2
CNXMcap Index	17,727	(0.2)	5.9	(0.1)
BSESMCAP Index	14,476	(0.5)	4.6	(2.8)
World Indices				
Dow Jones	26,107	0.4	2.3	1.5
Nasdaq	7,837	0.6	1.3	2.7
FTSE	7,369	0.0	1.8	2.5
NIKKEI	21,032	(0.5)	0.1	(0.9)
Hangseng	27,295	(0.1)	(3.3)	(5.8)
Shanghai	2,911	0.0	0.9	(2.7)

Value traded (Rs cr)	13-Jun	% Chg Day
Cash BSE	2,223	35.6
Cash NSE	31,300	20.4
Derivatives	2,476,549	119.3

Net inflows (Rs cr)	12-Jun	MTD	YTD
FII	(644)	515	78,562
Mutual Fund	444	(240)	2,262

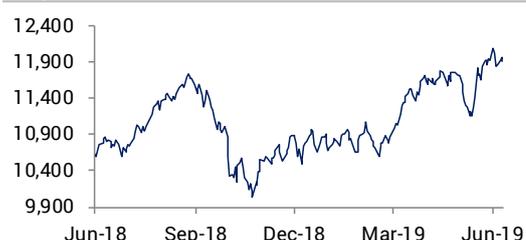
Nifty Gainers & Losers	Price	Chg	Vol
13-Jun	(Rs)	(%)	(mn)
Gainers			
Indiabulls Housing	694	11.8	48.5
Zee Entertainment	353	2.8	7.1
BPCL	389	2.1	6.9
Losers			
Yes Bank Ltd	117	(13.1)	197.2
Indusind Bank	1,489	(5.2)	10.2
UPL Ltd	1,005	(1.5)	2.5

Advances / Declines (BSE)					
13-Jun	A	B	T	T total	% total
Advances	160	287	41	488	100
Declines	295	652	80	1,027	210
Unchanged	4	30	8	42	9

	13-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Commodity				
Crude (US\$/BBL)	61.9	0.9	(13.2)	(8.0)
Gold (US\$/OZ)	1,342.3	0.6	3.8	3.9
Silver (US\$/OZ)	14.9	0.9	1.0	(1.6)

Debt / Forex Market	13-Jun	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.0	7.0	7.4	7.4
Re/US\$	69.5	69.4	70.5	69.5

Nifty



Source: Bloomberg

News Highlights

- ▶ RBI said it will infuse Rs 125 bn into the financial system through bond purchases on June 20. The decision has taken based on a review of the evolving liquidity conditions and assessment of the durable liquidity needs going forward, the central bank said in a statement. (MC)
- ▶ Sebi came out with a strict disclosure framework for credit rating agencies wherein they will be required to provide the probability of default for various rated instruments. (MC)
- ▶ The government needs to increase foreign direct investment cap in the insurance sector and multi-brand retail trading for products manufactured and sourced from India for attracting overseas inflows, industry chamber FICCI said. In the insurance sector, FDI cap can be increased from 49 percent to 74 percent. (MC)
- ▶ The Digital Communications Commission asked the Telecom Regulatory Authority of India (Trai) to review its recommendations on 5G spectrum sale, scheduled to take place in the calendar year to auction 8,644 MHz of airwaves, and make available a higher amount of spectrum, besides approving the rollout of airwaves for 5G trials in 100 days. (BS)
- ▶ The National Highways Authority of India came up with its third TOT bundle, which is now up for bidding to private operators for an initial estimated concession value (IECV, or reserve price) of Rs.49.95 bn. (Mint)
- ▶ **HDFC** is likely to sell 4.2 per cent stake in its subsidiary **Gruh Finance** on Friday to comply with the requirements laid down by the Reserve Bank of India for facilitating the proposed merger of the housing finance with Bandhan Bank. The sale would be carried out through stock exchanges at Rs 290 per shares, a 6 per cent discount to Thursday's closing price of Rs 308.5. The base deal size is expected to be 31 mn shares with an upside option. (ET)
- ▶ NCLT's adjourned hearings in insolvency cases filed by two operational creditors against **Jet Airways** to June 20, as representatives of the grounded airline were not present. (BL)
- ▶ **Bharat Dynamics Limited (BDL)** has signed a contract worth of Rs 11.87 bn for supply of Heavy Weight Torpedoes - Varunastra - to the Indian Navy. (BL)
- ▶ **NMDC** resumed mining operations at Bailadila mining complexes of Kirandul and Bachel segments in Chhattisgarh, after almost a week-long agitation at Bailadila by local tribals. (BL)
- ▶ **Wockhardt** received zero Form 483 observation from the U.S. FDA after it had carried inspection of Bioequivalence Centre in Aurangabad, during which Tamsulosin and Metoprolol drugs were audited. (BQ)
- ▶ **Indiabulls Housing Finance** said that it has made timely payment of interest of NCDs whose due date falls on June 14. (BQ)
- ▶ **Thyrocare Technologies's** board to decide on separating arm Nuclear Healthcare after valuation report obtained from a merchant banker. On May 18, the auditors had pointed the impairment of the aforesaid arm. (BQ)
- ▶ **Hexaware Technologies** announced the acquisition of Mobiquity for a total consideration of ~ \$182 mn. (BL)

What's Inside

- ▶ **Company Update:** PNC Infratech Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Management Meet Update

PNC INFRATECH LTD (PNC)

Stock Details

Market cap (Rs mn)	:	52796
52-wk Hi/Lo (Rs)	:	211 / 122
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	210,281
Shares o/s (mn)	:	257

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	30,965	44,177	54,322
Growth (%)	66.8	42.7	23.0
EBITDA	4,569	6,459	7,673
EBITDA margin (%)	14.8	14.6	14.1
PAT	2,587	3,434	4,136
EPS	10.1	13.4	16.1
EPS Growth (%)	40.9	32.7	20.4
BV (Rs/share)	82	95	111
Dividend/share (Rs)	0.6	0.6	0.6
ROE (%)	13.2	15.1	15.7
ROCE (%)	16.5	19.7	20.6
P/E (x)	20.3	15.3	12.7
EV/EBITDA (x)	11.8	8.7	7.3
P/BV (x)	2.5	2.2	1.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	56.1	56.1	56.1
FII	6.3	6.3	6.3
DII	22.7	22.7	22.7
Others	15.0	15.0	15.0

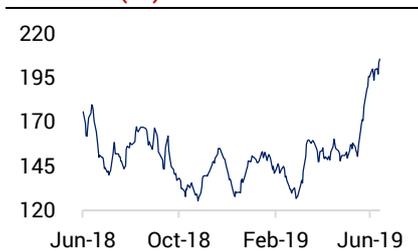
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
PNC Infratech	32.1	29.3	58.2
Nifty	6.9	5.0	10.4

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE RS.206

TARGET RS.226

ADD

We recently met the management of PNC Infratech. The company has robust order book and order pipeline which gives strong revenue growth visibility for the next two to three years.

- ❑ PNC has robust order book of Rs 131 bn (including HAM projects where appointed date not yet received) which is 4.2x its FY19 revenue and gives strong revenue growth visibility for the next 2-3 years. Further, the company is targeting to add another Rs 70-80 bn of new orders from NHAI and state highways projects in FY20E.
- ❑ PNC has total 7 HAM projects costing Rs 88.97 bn out of which it has received appointed date in six projects and in balance one it expects the appointed date by September 2019. The company does not see any major problem in meeting equity commitment in HAM projects, as it has strong cash generation, ongoing monetization of BOT assets and has low net debt.
- ❑ PNC has strong balance sheet with standalone debt decreased in Q4FY19, on qoq. The company had reduced its working capital days in FY19 based on strong collections.
- ❑ Based on strong order book, pipeline of new orders and appointed date received in most of the HAM projects (except one), PNC targets for 45-50% growth in FY20E revenue with EBITDA margin of 13.75-14%.

Outlook & Valuation

We like PNC Infratech on account of strong execution track record, improved cash flows, strong balance sheet and robust order book which gives high revenue growth visibility. Further, PNC has strong pipeline of projects in road space which will support its future order book and leaves scope for earning's upgrade. The EPC business (adjusted for Rs 32 per share value of BOT/HAM) is available at a PE of 12.9x and 10.7x based on FY20E and FY21E EPS of Rs 13.4 and Rs 16.1, respectively. We recommend ADD (Vs Buy earlier) on the stock with unchanged SOTP based target price of Rs 226.

Strong order book with robust pipeline

The order book at the end of Q4FY19 stood at ~Rs 131 bn which includes 1) Rs 12.2 bn of confirmed projects under execution, 2) one HAM projects of EPC cost of Rs 9.35 bn where appointed date is awaited. The order book gives strong revenue growth visibility for the next two to three years. Further, the company is targeting to add new projects worth Rs 70-80 bn (50% from HAM) in FY20E based on new bids expected from NHAI and state government. The company is bidding in 38 out of 86 NHAI projects of value ~Rs 360 bn. It will also be bidding for Rs 120 bn of projects from UP government related to Bundelkhand Expressway (~ Rs 90 bn) and Gorakhpur link road (~ Rs 30 bn). The company does not expect any problem related to funding of UP state government project as these are back by multi-lateral funding. The company expects awarding of these project in H2FY20. Besides this, road projects from states like MP and Rajasthan will also come in future, however currently these are at initial stage (DPR stage). Further, the company has capability to execute metro projects, railways (track laying), T&D, etc and is qualified to execute those. The company would take these orders based on opportunity and terms of the project.

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Guidance of 45-50% standalone revenue growth based on conservative estimates

Based on robust order book and execution timeline, the company has guided for 45-50% growth in FY20E revenue. The company has received appointed date in six out of seven HAM projects and most of its EPC projects are moving on expected lines. We believe that 40-50% growth guidance in FY20E is based on conservative estimates in terms of contribution from large projects like Mumbai Nagpur expressways and Purvanchal expressways. In Purvanchal Expressways, the company has two packages of Rs 23.9 bn of order backlog and are targeted to be completed in H1FY21. As per the management, the work on these projects are going on full swing. Similarly, Rs 20 bn Mumbai Nagpur Expressways is also expected to contribute from Q1FY20 onwards. As per the management, the company may review its guidance later in the current financial year based on execution. Further, the company is targeting Rs 70-80 bn of new orders in FY20E with large portion of 50% is expected on EPC mode, where execution can start faster than HAM. Hence, growth outlook for FY21E also remains strong. The company has guided for 13.75-14% EBITDA margin in FY20E which excludes any early completion bonus/claim award.

Order Backlog details (as on 31 Mar 2019)

Projects	Value (Rs mn)
Jhansi-Khajuraho I (HAM)	8,250
Purvanchal Expressway Project P5 (Sansarpur Gobindpur)	14,670
Purvanchal Expressway Project P6 (Gobindpur Morjarpur)	9,300
Chakeri to Allahabad (HAM)	18,660
Aligarh-Kanpur (Package II from Bhadwas to Kalyanpur) (HAM)	10,330
Mumbai Nagpur Expressway	19,995
Other projects	40,900
Order backlog	1,22,100
Challakere to Hariyur Karnataka (HAM) (Not included in OB)	9,350
Consolidated OB	1,31,450

Source: Company

Status of HAM projects

PNC has total 7 HAM projects costing Rs 88.97 bn out of which it has received appointed date in six projects and began construction on these. The company has received appointed date in Chakeri Allahabad and Aligarh Kanpur project in Q4FY19 and has already started execution. These projects are expected to contribute revenue from Q1FY20. In balance one HAM project, which is Challakere-Hariyur in Karnataka, it has achieved financial closure and is awaiting appointed date. As per the company, there is some tree cutting and utility shifting related issue in the project and hence the appointed date in the project is awaited. The company expects the same in September 2019. These projects are expected to contribute to the topline in Q1FY20.

HAM Projects

Project	Authority	State	KM/Lanes	Status	Total Project Cost (Rs mn)	Equity Invested (Rs mn)*
Dausa-Lalsot	NHAI	Rajasthan	83.45/ 4/2	AD received	8200	590
Chitradurga –Davanagere	NHAI	Karnataka	72.7/6	AD received	13380	550
Jhansi-Khajuraho (Package I)	NHAI	UP&MP	76.3 / 4	AD received	13420	640
Jhansi-Khajuraho (Package II)	NHAI	UP&MP	85.4 / 4	AD received	12620	430
Chakeri-Allahabad	NHAI	UP	145.1 / 6	AD received	20180	37.5
Aligarh-Kanpur	NHAI	UP	45 / 4	AD received	11040	32.5
Challakere-Hariyur	NHAI	Karnataka	55.7 / 4	FC Achieved	10130	32.5
Total				88970	2312.5	

Source: Company, *as on Q4FY19

Well placed to meet equity commitment in HAM projects

PNC has infused Rs 2.8 bn (current) equity in HAM projects and further requires Rs 6 bn of equity in 7 HAM projects in the next 2-3 years, with Rs 2.8 bn in FY20E. The company does not see any major problem in meeting equity commitment in these as it has strong cash generation and has low net debt. Besides this, the company is also monetizing its BOT projects. It has signed agreement with Cube Highways to monetize its BOT project Ghaziabad Aligarh project and is awaiting NOC from the lenders. This deal is expected to generate ~Rs 3 bn of cash inflows for the company and would reduce group's exposure towards debt related to the SPV. Further, the company has received total arbitration award in favour of its SPV PNC Delhi Industrialinfra Private Limited. The company is expecting arbitration award of ~ Rs 1.7 bn in two other highways projects. The company is also entitled to receive early completion bonus in Aligarh Moradabad EPC project. It has completed the same 73 days ahead of schedule and is entitled to receive early completion bonus of ~ Rs 141 mn.

Strong balance sheet to support future growth

The company has comfortable standalone debt of Rs 3.75 bn (with net debt to equity at 0.1x), which includes only term loan related to equipment finance and zero working capital. The debt in the books decreased qoq in Q4FY19 due to reduction in working capital days in FY19 based on strong collections. The debtors' days in FY19 reduced by 63 days to 73 days. Further, it has Rs 7.5 bn of fund based and Rs 33.5 bn of non-fund based limits and these limits are expected to be increased based on strong balance sheet. On consolidated basis, PNC has debt of Rs 27.7 bn with comfortable consolidated net debt to equity ratio of 1.09x. The company has already done major capex in FY19 with Rs 2.9 bn capex and targets to do capex of Rs 1-1.2 bn in FY20E in order to execute its orders. Based on current gross block of ~Rs 10 bn, it can execute over Rs 50 bn of work on its own in a year and hence can easily meet its growth guidance.

Outlook and valuation

We like PNC Infratech on account of strong execution track record, improved cash flows, strong balance sheet and robust order book and pipeline which gives high revenue growth visibility. We maintain our estimates for FY20E and FY21E. Based on current order book of ~Rs 131 bn (including HAM & EPC projects) and execution timeline, we expect PNC's revenue, EBITDA and PAT to grow at a CAGR of 32.5%, 29.6% and 26.4% respectively in FY19-21E. Further, PNC has strong pipeline of projects in road space which will support its future order book and leaves scope for earning's upgrade. The EPC business (adjusted for Rs 32 per share value of BOT/HAM) is available at a PE of 12.9x and 10.7x based on FY20E and FY21E EPS of Rs 13.4 and Rs 16.1, respectively. We

recommend ADD (Vs Buy earlier, due to recent run-up in the stock) on the stock with unchanged SOTP based target price of Rs 226.

Valuation Table (Rs mn)

Segment	Parameter	Multiple P/E, P/BV	Rs Per Share
Construction Business	FY21E PE	12x	194
Road BOT/HAM	BV	1x	32
Consol PNC			226

Source: Kotak Securities Private Client Research

Company Background

PNC Infratech Ltd (PNC) is present in the business of construction and infrastructure development with expertise in highways, bridges, flyovers, airport runways, development of industrial areas, etc. The company is executing most of the projects in the states like Uttar Pradesh, Madhya Pradesh, Delhi, Rajasthan, Punjab, Haryana, Uttarakhand, Bihar, etc. PNC was incorporated as a sole proprietorship firm in 1989 and was promoted by Mr. Pradeep Kumar Jain. Over the years, it executed 44 major infrastructure contracts. The company has a long history in the Indian road sector and secured a contract from the first 10 tenders of NHDP in 1999. In FY07, it forayed in BOT business and further forayed into Hybrid Annuity Projects (HAM) in FY17. PNC has executed 38 road projects on EPC contract basis and is operating 6 BOT projects, 1 OMT project and developing 7 HAM road projects.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	18,566	30,965	44,177	54,322
% change yoy	9.9	66.8	42.7	23.0
EBITDA	3,188	4,569	6,459	7,673
% change yoy	44.3	43.3	41.3	18.8
Depreciation	772	922	1,136	1,247
EBIT	2,416	3,647	5,323	6,426
Other Income	230	430	430	430
Interest	307	641	847	947
Profit Before Tax	2,339	3,436	4,906	5,909
% change yoy	20.6	46.9	42.8	20.4
Tax	503	849	1,472	1,773
as % of EBT	21.5	24.7	30.0	30.0
Adj PAT	1,836	2,587	3,434	4,136
% change yoy	20.9	40.9	32.7	20.4
PAT	2,510	3,245	3,434	4,136
% change yoy	19.7	29.3	5.8	20.4
Shares outstanding (mn)	257	257	257	257
Adj EPS (Rs)	7.2	10.1	13.4	16.1
DPS (Rs)	0.6	0.6	0.6	0.6
CEPS (Rs)	10.2	13.7	17.8	21.0
BVPS (Rs)	70	82	95	111

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	1,665	2,779	4,906	5,909
Depreciation	772	922	1,136	1,247
Change in WC	444	(1,973)	(2,898)	(1,304)
Other operating activities	(1,207)	200	(1,472)	(1,773)
Operating Cash Flow	1,674	1,928	1,672	4,080
Capex	(1,391)	(2,963)	(1,200)	(1,000)
Free Cash Flow	283	(1,036)	472	3,080
Change in Investments	(261)	(75)	(2,800)	(3,000)
Investment cash flow	(1,652)	(3,039)	(4,000)	(4,000)
Equity Raised	0	0	0	0
Debt Raised	(188)	2,451	1,000	-
Dividend & others	(150)	(150)	(150)	(150)
Other financing activity	1,334	267	-	-
CF from Financing	996	2,569	850	(150)
Change in Cash	1,017	1,458	(1,478)	(70)
Opening Cash	44	1,061	2,519	1,041
Closing Cash	1,061	2,519	1,041	971

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	513	513	513	513
Reserves	17,553	20,639	23,923	27,909
Net worth	18,067	21,152	24,436	28,422
Borrowings	1,286	3,737	4,737	4,737
Total Liabilities	19,352	24,889	29,173	33,159
Net block	4,065	6,155	6,219	5,972
Capital work in progress	111	62	62	62
Total fixed assets	4,176	6,217	6,281	6,034
Investments	6,625	7,739	10,539	13,539
Inventories	1,758	4,036	5,757	7,080
Sundry debtors	6,900	6,154	11,498	14,139
Cash and equivalents	1,061	2,519	1,041	971
Loans and advances & Others	2,451	4,600	4,048	4,169
Total current assets	12,169	17,308	22,344	26,358
Sundry creditors and others	6,685	8,447	12,051	14,819
Provisions	172	117	129	141
Total CL & provisions	6,856	8,564	12,180	14,961
Net current assets	5,313	8,744	10,164	11,398
Other Assets (net)	3,223	2,184	2,184	2,184
Net Deferred tax	15	5	5	5
Total Assets	19,352	24,889	29,173	33,159

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability Ratios				
EBITDA margin (%)	17.2	14.8	14.6	14.1
EBIT margin (%)	13.0	11.8	12.0	11.8
Net profit margin (%)	13.5	10.5	7.8	7.6
Adjusted EPS growth (%)	19.7	29.3	5.8	20.4
Balance Sheet Ratios:				
Receivables (days)	136	73	95	95
Inventory (days)	35	48	48	48
Loans & Advances (days)	48	54	33	28
Payable (days)	131	100	100	100
Cash Conversion Cycle (days)	87	75	76	71
Asset Turnover (x)	1.0	1.2	1.5	1.6
Net Debt/ Equity (x)	0.0	0.1	0.2	0.1
Return Ratios:				
RoCE (%)	13.2	16.5	19.7	20.6
RoE (%)	10.9	13.2	15.1	15.7
Valuation Ratios:				
P/E (x)	28.6	20.3	15.3	12.7
P/BV (x)	2.9	2.5	2.2	1.9
EV/EBITDA (x)	16.6	11.8	8.7	7.3
EV/Sales (x)	2.8	1.7	1.3	1.0

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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Disclosure/Disclaimer

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