PNC Infratech

Performance Highlights

Quarterly highlights - Standalone

Y/E March (₹ cr)	4QFY16	3QFY16	% chg (qoq)	4QFY15	% chg (yoy)
Net sales	585	518	*12.9*	459	*27.4*
EBITDA	73	64	*13.6*	56	*30.6*
Reported PAT	115	32	*253.7*	33	*250.0*

Source: Company, Angel Research

For 4QFY2016, PNC Infratech (PNC) reported a top-line growth of 27.4% while the bottom-line grew by a substantial 250% yoy. The top-line growth was driven by strong execution across Agra-Firozabad and other road projects. Stronger execution and yoy decline in employee expenses led to a 31bp yoy expansion in the EBITDA margin to 12.5%. A 30.6% yoy EBITDA growth coupled with tax reversals and MAT credit led the PAT to grow by 250% yoy. The PAT margin, at 19.6%, rose significantly on a yoy basis.

PNC's unexecuted order book as of 4QFY2016 stands at ₹5,797cr (order book to LTM sales ratio stands at 2.7x).

All the BOT projects are now operational as of FY2016-end. The Management has indicated that it does not intend to add any new BOT projects in FY2017-18 unless a lucrative project in north India comes up within the ₹500cr ticket size. As a result, we are of the view that PNC's consolidated D/E ratio would peak out in FY2017E.

Outlook and valuation: Considering the strong uptick in roads and highways EPC award activity especially in north India, where PNC has more comfort, and given its past track record and recent wins, we expect the standalone entity to report 20.1% top-line CAGR over FY2015-2017E. With normal tax rate applicable from FY2018, the bottom-line growth would be of -5.3% CAGR during the same period. Accordingly, the RoEs would decline from 23.3% in FY2016 to 13.2% in FY2018E. We are also now comforted that the consolidated Balance Sheet would peak from FY2017E onwards. Using the SoTP valuation methodology we arrive at a FY2018E based price target of ₹647. **Given the 13% upside in the stock form the current levels, we maintain our Accumulate rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	1,145	1,561	2,014	2,350	2,904
% chg	*(12.1)*	*36.3*	*29.0*	*16.7*	*23.6*
Net Profit	67	100	243	245	218
% chg	*(12.6)*	*50.2*	*141.9*	*1.1*	*(11.3)*
EBITDA (%)	12.2	13.9	13.2	13.4	13.7
EPS (₹)	17	25	47	48	42.4
P/E (x)	34.0	22.6	12.0	11.9	13.4
P/BV (x)	3.6	3.2	2.1	1.9	0.0
RoE (%)	11.2	14.9	23.3	16.8	13.2
RoCE (%)	15.0	20.2	19.4	17.1	18.3
EV/Sales (x)	2.1	1.6	1.4	1.3	1.1
EV/EBITDA (x)	17.3	11.9	10.7	10.1	8.0

Source: Company, Angel Research; Note: CMP as of June 6, 2015

ACCUMULATE

CMP	₹570
Target Price	₹647
Investment Period	12 Months

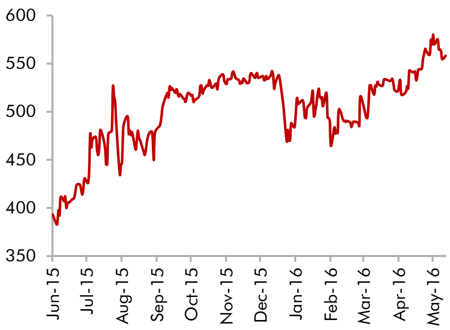
Stock Info	
Sector	Infrastructure
Market Cap (₹ cr)	2,924
Net debt (₹ cr)	(91)
Beta	0.9
52 Week High / Low	612/361
Avg. Daily Volume	33,225
Face Value (₹)	10
BSE Sensex	26,777
Nifty	8,201
Reuters Code	PNCI.BO
Bloomberg Code	PNCL@IN

Shareholding Pattern (%)	
Promoters	56.1
MF / Banks / Indian FIs	13.9
FII / NRIs / OCBs	6.5
Indian Public / Others	23.6

Abs. (%)	3m	1yr	3yr
Sensex	8.6	1.0	37.0
PNC Infratech	16.2	50.2	NA

**NA as PNC listed on May 26, 2015*

3-Year Daily Price Chart



Source: Company, Angel Research

Yellapu Santosh
022 – 3935 7800 Ext: 6811
santosh.yellapu@angelbroking.com

Exhibit 1: Quarterly Standalone Performance

Particulars (₹ cr)	4QFY16	3QFY16	*% chg (qoq)*	4QFY15	*% chg (yoy)*	FY16	FY15	*% chg (yoy)*
Net Sales	585	518	*12.9*	459	*27.4*	1,992	1,530	*30.2*
Total Expenditure	512	454	*12.8*	403	*27.0*	1,748	1,344	*30.0*
Cost of materials consumed	394	388	*1.5*	377	*4.4*	1,434	1,196	*19.9*
Changes in Inv. Of FG & WIP	24	(2)	*nmf*	(35)	*nmf*	35	(60)	*nmf*
Employee Benefits Expense	21	22	*(2.5)*	24	*(9.6)*	84	74	*13.4*
Other Expenses	73	46	*60.0*	38	*94.2*	196	135	*45.2*
EBITDA	73	64	*13.6*	56	*30.6*	244	186	*31.3*
EBIDTA %	*12.5*	*12.4*		*12.2*		*12.2*	*12.1*	
Depreciation	14	14	*3.5*	11	*35.4*	52	36	*44.3*
EBIT	59	51	*16.4*	45	*29.5*	191	149	*28.1*
Interest and Fin. Charges	9	8	*9.5*	11	*(19.1)*	33	46	*(28.1)*
Other Income	15	7	*114.4*	13	*19.3*	42	45	*(5.5)*
PBT before Exceptional Items	65	49	*31.4*	47	*38.0*	200	148	*35.6*
Exceptional Items	0	0		0		0	0	
PBT after Exceptional Items	65	49	*31.4*	47	*38.0*	200	148	*35.6*
Tax	(50)	17		14		(42)	47	
% of PBT	*(76.4)*	*34.4*		*30.4*		*(21.1)*	*32.1*	
PAT	115	32	*253.7*	33	*250.0*	243	100	*141.9*
PAT %	*19.6*	*6.3*		*7.1*		*12.2*	*6.6*	
Dil. EPS (after extra-ord. Items)	29.96	6.32	*374.1*	8.24	*263.6*	48.77	25.21	*93.5*

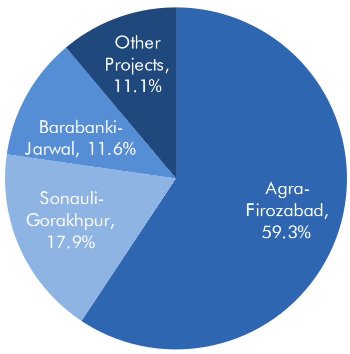
Source: Company, Angel Research

Standalone Business Review

Strong execution seen during the quarter

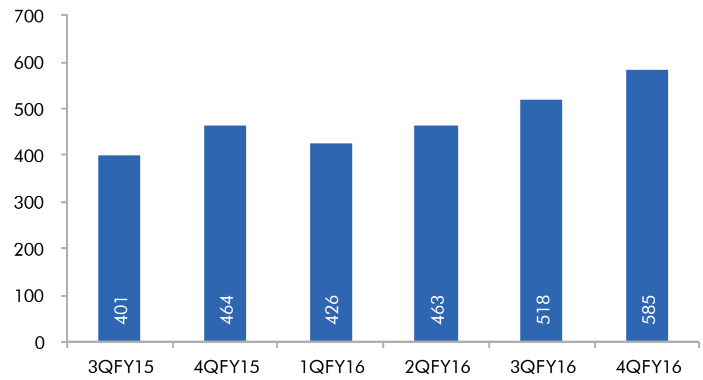
PNC witnessed strong execution during 4QFY2016. The company reported a strong 27.4% yoy top-line growth to ₹585cr. Agra-Firozabad (₹347cr), Sonauli-Gorakhpur and Barabanki-Jarwal projects majorly contributed to the 4QFY2016 revenues.

Exhibit 2: 4QFY2016 Revenue-Mix



Source: Company, Angel Research

Exhibit 3: Quarterly Revenue performance

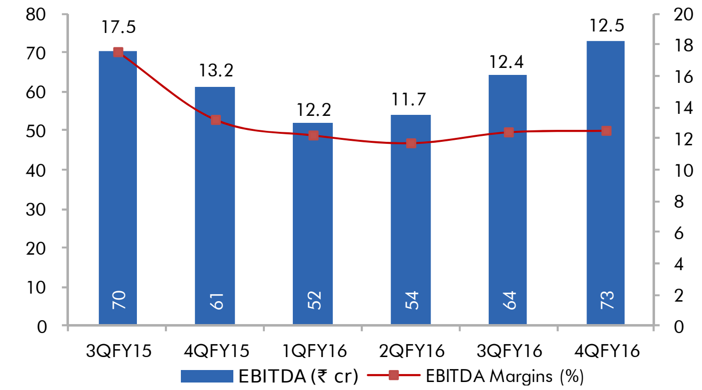


Source: Company, Angel Research

EBITDA margin expands to 12.5%

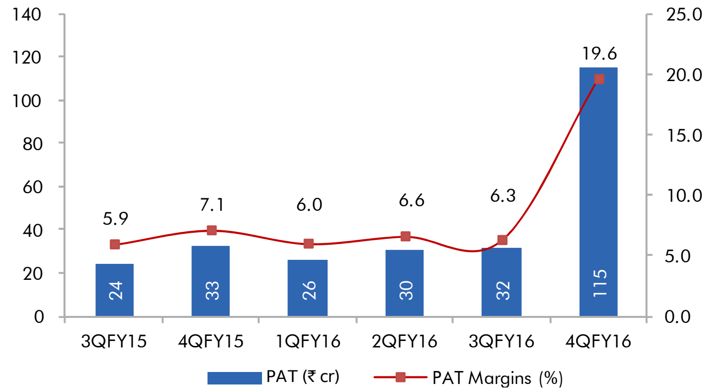
On the operating front, PNC reported an EBITDA of ₹73cr, reflecting an EBITDA margin of 12.5% for the quarter. The reported EBITDA margin expanded 31bp yoy to 12.5%. Strong execution coupled with 9.6% decline in employee expenses led to a yoy EBITDA margin expansion.

Exhibit 4: EBITDA margin expands to 12.5%



Source: Company, Angel Research

Exhibit 5: PAT Margin expands to 19.6%



Source: Company, Angel Research

PAT margin also expands yoy to 19.6%

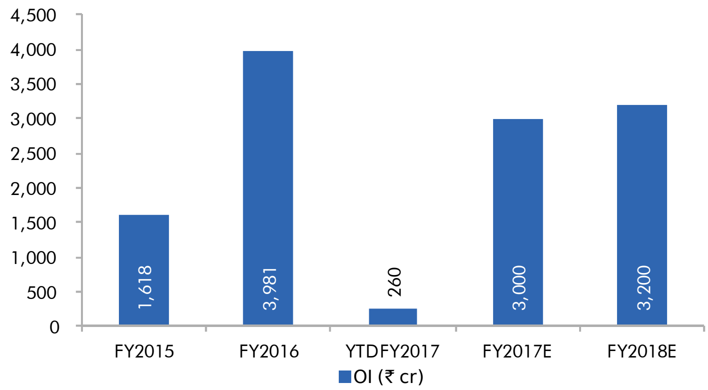
PNC reported a strong PAT at ₹115cr for the quarter. The reported PAT margin came in at 19.6%, ahead of 7.1% in the corresponding quarter a year ago and 6.3% in the sequential previous quarter. The PAT on a yoy basis benefitted from (1) write back of excess tax provisions (₹15.2cr), recognition of MAT credit (₹23.7cr), (2) 19.3% yoy increase in other income (to ₹15cr) and (3) 19.1% decline in interest expenses to ₹9cr (on the back of decline in yoy debt to ₹6cr).

Order inflows continue to grow

In FY2016, PNC reported a 146% yoy increase in net order inflows to ₹3,972cr. These include 6 highway projects and 1 airport runway project (has received letter of award for all the 7 projects). Further, YTDFY2017, PNC has either won/is L1 for projects worth ~₹260cr.

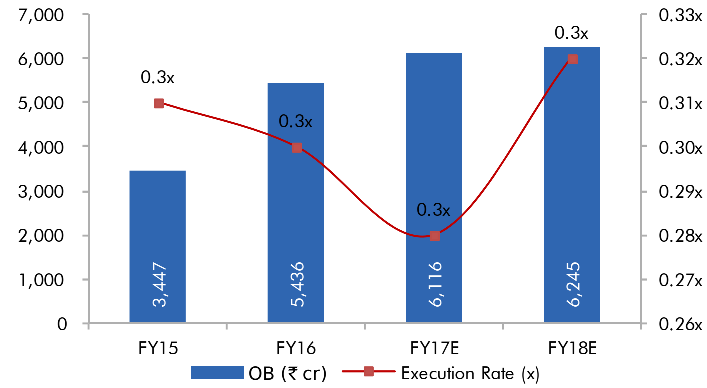
2 projects currently at L1 stage include- (1) extension and resurfacing of runway at Air Force Station, Bakshi Ka Talab, near Lucknow worth ₹140.6cr from Military Engineering Services, India, and (2) upgradation of Nanau-Dodon section in the district of Aligarh, Uttar Pradesh worth ₹119.9cr by UP PWD.

Exhibit 6: YTD Order Inflows stand at ~₹260cr



Source: Company, Angel Research

Exhibit 7: Order Book gives strong revenue visibility

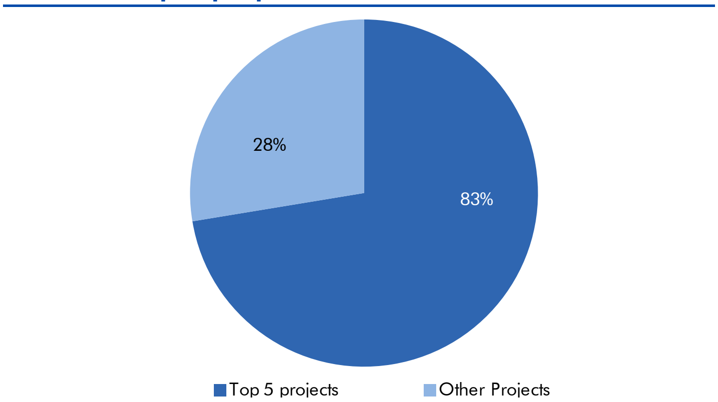


Source: Company, Angel Research

The Management expects the company to benefit from an uptick in NHAI & MoRTH's award activity and has given an order inflow guidance of ~₹5,000cr for FY2017E. The guidance is backed by a strong bid pipeline emerging from NHAI & MoRTH side (especially from Uttar Pradesh, Haryana, Madhya Pradesh).

PNC's unexecuted order book (including L1 order wins) as of 4QFY2016 stands at ₹5,797cr (order book to LTM ratio stands at 2.7x). The Roads & Highways vertical continues to dominate the order book mix.

Exhibit 8: Top 5-projects as % of total Order Book



Source: Company, Angel Research

Exhibit 9: Details of Top-5 projects being executed

Project details	O/s Total Project Value (₹ cr)
Nagina-Kashipur	1,156
Varanasi-Gorakhpur	869
Agra-Firozabad	860
Aligarh-Moradabad	645
Bhojpur-Buxar	477
Top 5-projects	**4,007**

Source: Company, Angel Research

Update on BOT projects

PNC currently has 8 BOT/OMT assets which are at different stages of execution. Of these, 1 is a BOT-Annuity project, 1 is an industrial estate maintenance project (BOT-Annuity + Fee model), 1 is an OMT project, and the remaining 5 are BOT-Toll projects. Notably, all 8 BOT projects are Uttar Pradesh (UP) or Central/North India based. 5 of these BOT projects have been won on Viability Gap Funding (VGF) basis, amidst competition.

Currently all 7 BOT projects are operational (Rae Bareli-Jaunpur BOT project commenced operations 98 days before the scheduled CoD of June-2016). On Jan 2, 2016, PNC completed the sale of its 8.5% stake in Jaora-Nayagaon Toll Road Company for ₹34.19cr for a profit of ₹9.7cr.

Exhibit 10: BOT Projects Status (at 2QFY2016-end)

BOT projects	Proj. Type	PNC Stake (%)	Status	Length (kms)	TPC	PNC Equity Invested to-date
Ghaziabad-Aligarh	Toll	35%	Operational	125	2,000	68
Kanpur-Kabrai	Toll	100%	Operational	123	458	68
Gwalior-Bhind	Toll	100%	Operational	108	340	78
Bareilly-Almora	Toll	100%	Operational	54	604	75
Rae Bareli-Jaunpur	Annuity	100%	Under Const.	166	837	140
Narela Industrial Estate	Annuity + Fee	100%	Operational	NA	175	35
OMT projects						
Kanpur-Ayodhya	Toll	100%	Operational	217	0	0

Source: Company, Angel Research

With all 7 BOT projects operational PNC does not have any equity commitments pending towards the BOT projects.

Kanpur-Ayodhya OMT project during 4QFY2016 collected ₹64cr of gross toll income, which in our estimate is an 11% yoy increase.

For Ghaziabad-Aligarh BOT project, PNC reported toll income of ~₹40lakh/day. The Management expects tolling from this BOT to catch-up in the next 3-6 months, (1) once the entire road stretch gets operational (currently does only partial tolling); and (2) on implementation of over-loading charges.

Risks & Concerns

- Delay in order wins could pose as a risk to our estimates.
- Roads & Highways account for substantial chunk of the order book. Slowdown in orders from NHAI / State governments could affect company’s order inflow adversely.
- PNC's order book comes majorly from North India. Any slowdown in orders from this region may impact our order inflow assumption for the company.

Outlook & Valuation

Considering strong execution trends exhibited by PNC, uptick in NHAI and MoRTH awarding momentum, when coupled with recent NHAI announcements, we expect further uptick in execution from here-on. Accordingly, we revise our FY2017E revenue estimate to ₹2,350cr and roll-out FY2018E estimate at ₹2,904cr, respectively (revenue CAGR of 20.1% over FY2016-18E). Given that recent order wins have been at disciplined bidding, we expect EBITDA margins to expand from 13.2% in FY2016 to 13.7% in FY2018E. With Management clarifying that they would avail MAT credit in FY2017E, we are sharply revising upwards our FY2017E PAT estimate to ₹245cr. On the whole, we expect PNC to report -5.3% PAT CAGR during FY2016-18E to ₹218cr.

Exhibit 11: Earnings Revision

		FY2017E		FY2018E
Y/E March (₹ cr)	Old	New	*Chg (%)*	Old
Net Sales	2,288	2,350	2.7	2,904
EBITDA	309	315	1.9	396
EBITDA Margins (%)	*13.5*	*13.4*		*13.6*
PAT	166	245	47.6	218
PAT Margins (%)	*7.2*	*6.4*		*7.5*

Source: Angel Research

Value of Core EPC business

With applicability of normal tax rates from FY2018 onwards, we do not see a scenario where the entire growth prospects of EPC segment (given expected uptick in Roads and Highways award activity environment, current OB/LTM sales ratio of 2.7x), trickling down to the PAT level. We now expect PNC's EPC business to report 20.1% top-line and -5.3% bottom-line CAGR during FY2016-18E, respectively. On the same lines we expect RoEs of the standalone business to decline from 23.3% in FY2016 to 13.2% in FY2018E. Accordingly, we have valued PNC's core EPC business (standalone entity) on P/E of 13.0x its FY2018E EPS of ₹42.4, resulting in a value of ₹551/share.

Exhibit 12: Sum-of-the-Parts based Valuation Table

Particulars	Segment	FY18E Std. PAT (₹ cr)	Target Multiple	Target Value (₹ cr)	Value/ share (₹)	% of SoTP	Basis
PNC's EPC business	Construction	218	13.0	2,829	551	85	P/E of 13x
Total				**2,829**	**551**	**85**	
Particulars	**Proj. Type**	**Equity Invested/ Disc. FCFE (₹ cr)**	**Project Stake**	**Adj. Equity Disc. FCFE (₹ cr)**	**Value/ share (₹)**	**% of SoTP**	**Basis**
Road BOT projects							
Ghaziabad-Aligarh	Toll	194	35%	68	13	2	BV/share- 1.0x
Kanpur-Kabrai	Toll	68	100%	68	13	2	BV/share- 1.2x
Gwalior-Bhind	Toll	78	100%	78	15	2	BV/share- 1.0x
Bareilly-Almora	Toll	75	100%	75	15	2	BV/share- 1.0x
Rae Bareli-Jaunpur	Annuity	140	100%	140	27	4	BV/share- 1.0x
Narela Industrial Estate	Annuity+Fee	35	100%	35	7	1	BV/share- 1.1x
Kanpur Ayodhya	OMT	25	100%	25	5	1	FCFE, discount rate at 14%
Total		**901**		**488**	**95**	**15**	
Grand Total				**3,317**	**647**	**100**	
Upside					**13%**		
CMP					570		

Source: Company, Angel Research

Value of BOT projects

BOT projects have been valued using Book Value/Free Cash flow to Equity holder's method. Our value for all the 8 BOT projects comes to ₹85/share, which is 15% of the overall SOTP value for the company.

On combining the value of EPC business BOT projects, we arrive at a combined business value of ₹647/share, reflecting 13% upside in stock price from the current levels. **Given the upside, we maintain our ACCUMULATE rating on the stock.**

Investment arguments

- **Strong order inflows to lead to better execution:** PNC, a north focused EPC player, should gain from a sharp revival in NHAI and MoRTH award activity, in-turn translating into strong order inflows over the next 12 months. We expect PNC to report order inflows of ₹3,000/3,200cr during FY2017E/2018E, which should further lead to uptick in execution. Accordingly, we expect PNC (on standalone basis) to report a strong 20.1% top-line CAGR during FY2016-18E.

- **-5.3% PAT CAGR during FY2016-18E:** Stronger execution, benefits of lower raw material prices and absorption of fixed costs, should help PNC (standalone entity) report 22.1% EBITDA CAGR during FY2016-18E. Entire benefits of EBITDA growth would not trickle down to the PAT level, as the normal tax rate would be applicable from FY2018 onwards. Accordingly, we now expect PNC to report -5.3% PAT CAGR during the same period.

- **All BOT projects are operational:** PNC has a portfolio of 8 BOT projects, with all of them being operational. With recent commencement of all BOT projects in FY2016E, we can expect gradual ease in the consolidated balance sheet stress from FY2017E onwards.

- **Comfortable consol. D/E ratio:** PNC entered the BOT space in FY2012 and OMT space in FY2014. As a result, the consolidated debt of the company increased from 0.2x in FY2011 to 1.9x in FY2015 (consolidated debt at ₹1,635cr). The Management commented that they do not intend to build the BOT portfolio unless (1) BOT project gives an estimated 16-18% equity IRR, (2) the project's ticket size is within ₹500cr as the Management intends equity funding for new BOTs to be done through internal accruals, and (3) the project is based within North India/ UP. With all pending BOT project getting operational, and PNC's focus to reduce additions to BOT projects portfolio, we expect consolidated D/E ratio levels of the company to peak-out in FY2017E.

Company background

PNC Infratech Ltd (PNC), incorporated in 1999, is an Agra based infra player mainly focused on Roads & Highways construction. PNC, in FY2012, diversified into BOT-Toll & Annuity projects and in FY2014 into OMT projects. Currently, PNC is executing 20 Engineering Procurement Construction (EPC) projects (1 through JV route), 7 BOT projects (including 2 Annuity projects) and 1 OMT project.

Profit and Loss Statement (Standalone)

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	**1,145**	**1,561**	**2,014**	**2,350**	**2,904**
% Chg	*(12.1)*	*36.3*	*29.0*	*16.7*	*23.6*
Total Expenditure	1,005	1,344	1,748	2,035	2,507
Cost of Raw Materials Consumed	372	1,196	1,434	1,741	2,147
Change in Inventories of WIP	10	(60)	35	(35)	(32)
Employee benefits Expense	58	74	84	101	119
Other Expenses	566	135	196	228	273
EBITDA	**140**	**217**	**266**	**315**	**396**
% Chg	*(10.0)*	*54.6*	*22.8*	*18.4*	*25.9*
EBIDTA %	*12.2*	*13.9*	*13.2*	*13.4*	*13.7*
Depreciation	25	36	52	56	60
EBIT	115	180	213	259	336
% Chg	*(13.3)*	*56.3*	*18.4*	*21.1*	*30.0*
Interest and Financial Charges	23	46	33	31	45
Other Income	11	14	20	18	20
PBT	102	148	200	245	311
Tax	36	47	(42)	0	93
% of PBT	*34.8*	*32.1*	*(21.1)*	*0.0*	*30.0*
PAT before Exceptional item	67	100	243	245	218
Exceptional item	0	0	0	0	0
PAT	FY14	FY15	FY16	FY17E	FY18E
% Chg	*(12.6)*	*50.2*	*141.9*	*1.1*	*(11.3)*
PAT %	*5.8*	*6.4*	*12.1*	*10.4*	*7.5*
Diluted EPS	17	25	47	48	42
% Chg	*(12.6)*	*50.2*	*87.7*	*1.1*	*(11.3)*

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E
Sources of Funds					
Equity Capital	40	40	51	51	51
Reserves Total	590	679	1,311	1,509	1,676
Networth	**630**	**718**	**1,362**	**1,560**	**1,727**
Total Debt	248	324	6	305	297
Other Long-term Liabilities	178	250	160	233	238
Deferred Tax Liability	3	0	(3)	(3)	(3)
Total Liabilities	**1,058**	**1,293**	**1,525**	**2,095**	**2,259**
Application of Funds					
Gross Block	287	387	428	491	550
Accumulated Depreciation	134	171	223	279	340
Net Block	**153**	**217**	**205**	**212**	**211**
Capital WIP	2	1	9	1	1
Investments	**351**	**424**	**464**	**849**	**949**
Current Assets					
Inventories	105	223	236	281	331
Sundry Debtors	344	367	376	555	645
Cash and Bank Balance	100	21	97	65	40
Loans, Advances & Deposits	127	214	258	294	331
Other Current Asset	1	1	1	2	2
Current Liabilities	223	285	362	418	524
Net Current Assets	**455**	**541**	**606**	**778**	**824**
Other Assets	98	111	240	256	275
Total Assets	**1,058**	**1,293**	**1,525**	**2,095**	**2,259**

Cash Flow Statement (Standalone)

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	103	148	200	245	311
Dep. & Other Non-cash Charges	28	28	82	48	52
Change in Working Capital	74	(105)	(209)	(147)	(84)
Interest & Financial Charges	23	46	33	31	45
Direct taxes paid	(33)	(50)	0	0	(93)
Cash Flow from Operations	**195**	**67**	**107**	**177**	**230**
(Inc)/ Dec in Fixed Assets	(54)	(100)	(49)	(55)	(59)
(Inc)/ Dec in Investments	(80)	(73)	(41)	(384)	(100)
Cash Flow from Investing	**(133)**	**(172)**	**(90)**	**(439)**	**(159)**
Issue/ (Buy Back) of Equity	0	0	435	0	0
Inc./ (Dec.) in Loans	21	76	(318)	299	(8)
Dividend Paid (Incl. Tax)	(3)	(7)	(37)	(47)	(51)
Net Interest Expenses	(17)	(42)	(21)	(23)	(37)
Cash Flow from Financing	**0**	**27**	**59**	**229**	**(96)**
Inc./(Dec.) in Cash	62	(79)	76	(32)	(25)
Opening Cash balances	**38**	**100**	**21**	**97**	**65**
Closing Cash balances	**100**	**21**	**97**	**65**	**40**

Key Ratios (Standalone)

Y/E March	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratio (x)					
P/E (on FDEPS)	34.0	22.6	12.0	11.9	13.4
P/CEPS	24.8	16.6	9.9	9.7	10.5
Dividend yield (%)	19.1	9.5	1.8	1.4	1.3
EV/Sales	2.1	1.6	1.4	1.3	1.1
EV/EBITDA	17.3	11.9	10.7	10.1	8.0
EV / Total Assets	1.9	1.6	1.5	1.3	1.1
Per Share Data (₹)					
EPS (fully diluted)	16.8	25.2	47.3	47.8	42.4
Cash EPS	23.0	34.3	57.5	58.8	54.2
DPS	0.8	1.5	6.1	7.9	8.5
Book Value	158	180	266	304	337
Returns (%)					
RoCE (Pre-tax)	15.0	20.2	19.4	17.1	18.3
Angel RoIC (Pre-tax)	16.5	21.6	20.5	18.1	18.8
RoE	11.2	14.9	23.3	16.8	13.2
Turnover ratios (x)					
Asset Turnover (Gross Block) (X)	4.5	4.6	4.9	5.1	5.6
Inventory / Sales (days)	33	38	42	40	38
Receivables (days)	118	83	67	72	75
Payables (days)	80	69	68	70	69
WC (days)	72	52	41	43	45
Leverage Ratios (x)					
D/E ratio (x)	0.4	0.5	0.0	0.2	0.2
Interest Coverage Ratio (x)	5.4	4.2	7.0	8.9	7.9

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

DISCLAIMER

Disclosure of Interest Statement	**PNC Infratech**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15%)*