

Top Sector Ideas: Infra-Road & Others

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Q4FY24 Infra-Road – All Eyes on New Order Inflows

✓ *Financial Performance*

- During the quarter, road infrastructure companies under our coverage reported revenue/ EBITDA/PAT growth of 14%/40%/223% YoY against our expectation of 11%/8%/8% YoY, primarily owing to better execution and exceptional gain accounted during the quarter by GR Infra, PNC Infratech, and KNR Construction.

✓ *EBITDA Margins Improves*

- EBITDA margins improved by 410bps/310bps QoQ/YoY. Overall performance remained above expectations during the quarter.

✓ *Company-wise Performance*

- In the Road sector, performance of most of the companies were in line or above our expectations. On the sales front, HG Infra sales were below expectation while margins were above expectations.
- In the Non-road sector, KEC performed better on the sales front while margins were below expectations. RITES performance were above expectation while PSP Projects and Ahluwalia contracts performance were below expectation owing to lower margin during the quarter.

Near-Term Outlook

- **Pace of road construction improved:** In FY24, The Road Transport and Highways Ministry constructed 12,349 km of national highways, which stood as its second highest after 13,327 km in FY21. In FY23, total road construction stood at 10,331 km and the pace of road construction improved by 20% YoY .
- **Low awarding activity:** Awarding activity during FY24 stood at 8,581 km against 12,000 km in FY23, down 28% YoY. The delay was on account of the government's strict policy guidelines to not award projects before land acquisition and all other clearances are in place. It is expected that awarding will gain pace in FY25 on the formation of the new government.
- **Overall inflows from the Road sector remained below management expectations:** The order inflow for companies under our coverage universe remained tepid except H.G Infra during the year owing to low awarding activity by the NHAI and higher competitive intensity in EPC projects. However, they sounded positive and believed that order intake would accelerate in FY25 as the bidding pipeline remains strong at over Rs 2 Lc Cr.
- **Focus on state governments' road projects:** Besides the NHAI pipeline, companies are also looking to bid for various state governments' road projects with strong pipelines and better payment terms
 - ✓ Most road companies are looking to diversify their operations to reduce dependence on road projects.
 - ✓ Asset monetization remained key activities during the year and companies like H.G. Infra, GR Infra and PNC Infratech monetized their HAM assets portfolio respectively.
 - ✓ At present, most of the companies under our coverage have robust order books giving healthy revenue visibility for the next 2-3 years except KNR constructions.

Sector Long-term Outlook

- **Pace of road construction to gain momentum:** With the NHAI looking to award many road projects under the central government's flagship program – Bharatmala Pariyojana for building highways and expressways, the pace of road construction will gain further momentum. Moreover, the National Infrastructure Pipeline, which aims to develop overall infrastructure, would support road construction moving ahead.
- **Road construction companies to be major beneficiaries of infra-spending:** Since the majority of these projects would be awarded under the EPC and HAM model, road construction companies will be major beneficiaries of the government's infra-spending. With a robust order book, healthy bidding pipeline, and diversified order book, we remain positive on the sector's long-term outlook. However, from a short-term perspective, we remain cautiously optimistic, and all eyes are on new order inflows and receipt of AD (Appointed Date) for projects awarded.
- **Competitive intensity has reduced in HAM projects:** Managements have indicated in their earnings conference calls that competitive intensity has reduced in higher value HAM projects bidding, while they remained high on EPC projects.
- **We remain positive on the sector from the medium to long-term perspective.**

Short and Medium-term Outlook

Short Term

Volatile Raw material prices:
Prices of cement and steel are fluctuating

Delay in Appointed Dates:
Delays in appointed date to affect revenue growth

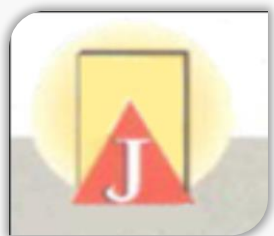
Superior Execution:
Execution to remain healthy in Q1FY25

Better Order Inflow:
Awarding expected to increase in FY25

Medium Term

Key Monitorables – *Direction of RM; Appointed date; Order Inflow; and Execution*

Top Sector Ideas: Infra-Road

Stock
Reco.
TP
Recommendation Rationale

J Kumar Infraprojects
BUY
Rs 845*

- ✓ As of 31st Mar'24, the company's order book stood at Rs 21,011 Cr, including L1 of Rs 4,700 Cr (Virar Alibaug Multi Modal Corridor & Hari nagar building). Total order book now stands at Rs 25,711 Cr which is 5x FY24 revenue.
- ✓ The company received an order inflow of Rs 11,810 Cr (excluding GST) during FY24. A healthy and robust order book gives revenue visibility for the next 3-4 years. We expect the company to report revenue CAGR of 18% over FY24-FY26E
- ✓ The company has a strong bidding pipeline of Rs 20,000 Cr that includes projects from Metro, Elevated corridors, Road tunnels & buildings. The company aims to win project worth Rs 8,000-10,000 Cr in FY25. This includes current L1 orders also. The company is also looking to bid for irrigation projects to diversify its project profile
- ✓ The company expects EBITDA margins to trend higher in FY26 from current 14%-15% range to 15%-16% range backed by efficient project execution and accretion of more orders.

** Note: Target Price is based on our Q4FY24 Result Update Report*

Top Sector Ideas: Infra-Road

Stock
Reco.
TP
Recommendation Rationale

PNC Infratech Ltd
BUY
Rs 505*

- ✓ PNCIL has an order book of Rs 15,490 Cr (as of 31st Mar'24), indicating revenue visibility for the next 2-2.5 years. The value of contracts is over Rs 20,400 Cr (incl. contract worth Rs 4,994 Cr where company is L1) is over 2.7 times of FY24 revenue.
- ✓ In the Interim Union Budget 2024-25, Capex has been increased by 11% for the infrastructure sector, thereby providing greater opportunities for companies like PNCIL. With a strong bid pipeline of over Rs 1.5 Lc Cr from the NHAI, the management expects additional order inflow of Rs 8000-10000 Cr in FY25.
- ✓ The company, along with its wholly-owned subsidiary, PNC Infra Holdings Limited have signed a Master Securities Purchase Agreement (SPA) with Highways Infrastructure Trust (HIT), an Infrastructure Investment Trust (InvIT) to divest 12 of the Company's road assets: 11 National Highway (NH) Hybrid Annuity mode (HAM) assets and 1 State Highway BOT Toll asset. The enterprise value is Rs 9,005 Cr with an equity value of Rs 2,902 Cr.
- ✓ The company will receive money from asset monetization in 2 tranches: tranche 1 Rs 5,050 Cr and tranche 2 Rs 3,990 Cr. The management expects Rs 5,050 Cr of tranche 1 to be received by end of Jul'24.

* Note: We change our rating from *HOLD* to *BUY* on recent correction in stock price

Top Sector Ideas: Infra-Others

Stock
Reco.
TP
Recommendation Rationale

G R Infraprojects Ltd
BUY
Rs 1720 *

- ✓ The company's order book position, including L1 projects, stands at Rs 21127 Cr, providing revenue visibility for the next 2.5-3 years. For FY24, the company anticipates an order inflow of Rs 15,000-20,000 Cr in FY25 across all segments, with a significant contribution from the Road sector. We anticipate the company to grow its revenue at a CAGR of 10% over FY24-FY26E.
- ✓ Bidding pipelines remains strong over Rs 2.5 Lc Cr as identified by the company with Rs 1.5 Lc Cr from road sector comprising EPC, HAM, and BOT vertical and balance from others. In addition to road projects, the company has successfully diversified into other segments such as Railways, Ropeways, Multi-Modal Logistic Parks (MMLPs), and Power transmission to reduce its dependence on road projects. Strong bidding pipeline and segment diversification augurs well for the company.
- ✓ There are currently 6 Hybrid Annuity Model (HAM) projects valued over Rs 6,000 Cr awaiting the Appointed Date (AD). Management anticipates receiving AD for these projects between Q2FY25-Q3FY25. Getting AD remains crucial for the future growth of the company

** Note: Target Price is based on our Q4FY24 Result Update Report*

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