

Construction Sector

5 April, 2023

Revenue visibility supported by a healthy orderbook

We anticipate a strong Q4 FY23 for the construction industry, as execution is anticipated to improve and falling input prices (cement, steel, bitumen, and sand/aggregates) are likely to boost construction businesses' profits. NBIE predicts that the NHAI will continue to grant between 6,000 and 7,000 km/year on average between FY24 and FY27. In addition, it is anticipated that the proportions of HAM, EPC, and BOT in project awarding would stay essentially consistent without substantial deviations (55% of projects granted through HAM in FY22 are projected to remain stable). Construction sector is fragmented with approximately 1,200 players (listed and non-listed), out of which top 50 listed companies in civil construction space (Bloomberg) recorded TTM revenue of Rs1,206bn; only 6 companies have revenue share which is between 5-8% compared to the average 2% market share of the universe. ASBL, KNR and PNC together constitute 12% share of the universe. Within our coverage universe, we anticipate that PNC Infratech will post higher sales growth than its competitors followed by KNR construction. With the strong increase in order intake and solid order backlog, we anticipate that FY24 will be a much better year for execution, with execution growth beginning in 1HFY24. We think that EPC companies with solid balance sheets, a cautious bidding approach, and secured funding would stand to outperform. Overall, we retain our 'positive' outlook on the sector and expect that execution will improve as the building season progresses.

Ashoka Buildcon: We are building in flattish YoY and QoQ growth in revenue in 4QFY23. EBITDA margin is expected to increase to 11.1% vs 7.5% last quarter. PAT is expected to decline by 28.4% YoY. The management had highlighted that its focus remains to build strong EPC business in segments of highways, railways, power T&D and buildings. FY24 looks better for the company with cash flowing in from multiple deals (KKR deal-Rs13bn, Chennai ORR deal-Rs4.5bn, Jaora-Nayagaon- Rs4bn) by the end of 1HFY24.

KNR Construction: We expect revenue to increase by 6% on a YoY basis and 28.6% QoQ. EBITDA Margin is expected to hover around 20.7%. The current order book position remains healthy and provides a clear visibility of execution over a period of next 2.5 years. Company had targeted Rs40-50bn of order inflows for the last quarter FY23. Recovery of irrigation project receivables from the Government (Rs6.5bn as of Dec 2022) and new order inflows are key monitorables.

PNC Infratech: We are building in 16% YoY revenue growth for PNC in 4QFY23. EBITDA margin is expected to decline by 133bps to 11.3%. EBITDA and PAT are expected to increase by 4.1% and 11.8%, respectively, on YoY basis. The management had said that internal accruals that would be generated over the next 2-3 years should be sufficient to fund the total equity requirement for the HAM projects (Rs12.6bn to be invested). Company has mentioned that it expects a total revenue of Rs9bn in FY23 from drinking water projects. Monetization of fund-based projects would be crucial metric going forward.

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Company (Rs mn)	Sales			EBITDA			EBITDA margin %			PAT		
	4QFY23E	YoY %	QoQ %	4QFY23E	YoY %	QoQ %	4QFY22	3QFY23	4QFY23E	4QFY23E	YoY %	QoQ %
Ashoka Buildcon	15,676	0.5	0.5	1,734	10.9	48.1	10.0	7.5	11.1	1,346	-28.4	101.7
KNR Construction	10,680	6.0	28.6	2,214	8.1	41.9	20.3	18.8	20.7	1,232	9.2	-23.9
PNC Infratech	21,347	16.4	31.2	2,420	4.1	16.3	12.7	12.8	11.3	1,546	11.8	19.4

Source: Company, Nirmal Bang Institutional Equities Research

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SELL < -5%

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