Road Infra- Q4FY23 Result Preview

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Axis Securities Equity Research

INFRA-ROAD – BETTER EXECUTION DRIVES GROWTH; OUTLOOK REMAINS POSITIVE

We expect road construction companies under our coverage to report Revenue/EBITDA/APAT growth of 21%/22%/26% QoQ and 9%/5%/6% YoY,led by superior execution, supporting higher profitability during the quarter. Q4 is generally a strong period for project execution. Moreover, with bidding & awarding activity accelerating during this period, project awarding by the NHAI gained momentum as it awarded 4,300 km of the project till Feb'23 against 1,550 km in the first 8 months of FY23. Since H1FY23 was soft in terms of project awarding, the NHAI increased the pace to meet its targeted project awarding of 6,500 km in FY23.Most companies under our coverage have received a letter of award from the NHAI as it accelerated the pace of awarding. In terms of construction, NHAI is looking to construct 5,000 km of roads in FY23 and total construction till Feb'23 stood at 3,200 km.The order book of our coverage universe has further strengthened with the addition of these recent awards, providing us with revenue visibility for the next 2-3 years. Further many companies have also diversified and won projects in non road segment thereby strengthening their revenue profile. We expect execution to remain robust moving forward. Toll collections through FASTag have been robust and increased by 46% in CY22 and at present 96% of all toll collection is happening through FASTag. Increased toll collection augurs well from the perspective of asset monetization as the NHAI is looking to monetize its road assets. This will also help existing road developers who are looking to monetize their road assets. This will also help existing road developers who are looking to monetize their toll assets.

Outlook:With the improvement in the NHAI awarding pace, many road projects under the central government's flagship program Bharatmala Pariyojana for building highways and expressways would gain momentum and concurrently pace of road construction would improve further. Higher budgetary allocation for roads in the Union Budget – 2023-24 would further support the construction of more highways and expressways. Also, National Infrastructure Pipeline which aims to develop overall infrastructure would support road construction moving ahead .Since the majority of these projects would be awarded under EPC and HAM models, road construction companies will be the major beneficiaries of the government's infra spending. With the softening of commodity prices, profitability is also expected to improve. With a robust and diversified order book, a healthy bidding pipeline, and softening in commodity prices, we remain positive in the sector.

Our preferred picks in the sector: PNC Infratech, HG Infra; KNR Construction.

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Quarterly Preview– Q4FY23

Road Infra

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
KNR Construction Ltd						
Revenues	1011	858	18%	1011	0%	→ Revenue to be flattish YoY but higher QoQ owing to better execution. → Gross margins to be impacted owing to higher cost YoY. → EBITDA to be lower YoY but higher QoQ led by better sales YoY. → EBITDA margin to be lower YoY owing to higher cost.. → PAT to be higher on YoY basis due to lower tax YoY. → EPS to be in line with PAT
Gross Profit	642	522	23%	704	-9%	
Gross margin (%)	63.5%	60.8%	270bps	69.7%	(600bps)	
EBITDA	192	162	18%	208	-8%	
EBITDA margin (%)	19.0%	18.9%	10bps	20.6%	(160bps)	
PAT	116	92	26%	113	3%	
EPS (Rs)	4.1	3.3	26%	4.0	3%	
PNC Infratech Ltd						
Revenues	2071	1705	21%	1917	8%	→ Revenue to be higher owing to better execution YoY. → Gross margins to be impacted owing to elevated material cost YoY. → EBITDA to be higher led by strong sales YoY. → EBITDA margin to be higher YoY owing to higher sales &lower other expenses. → PAT to be higher YoY backed by higher sales. → EPS to be in line with PAT
Gross Profit	559	443	26%	563	-1%	
Gross margin (%)	27.0%	26.0%	100bps	29.4%	(250bps)	
EBITDA	269	222	21%	225	20%	
EBITDA margin (%)	13.0%	13.0%	0bps	11.7%	130bps	
PAT	172	135	28%	138	25%	
EPS (Rs)	6.71	5.25	28%	5.39	25%	

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
H.G. Infra Eng Ltd						
Revenues	1436	1131	27%	1026	40%	➔ Revenue to be higher owing to better execution YoY.
Gross Profit	299	255	17%	199	50%	➔ Gross margins to be higher owing lower material cost YoY
Gross margin (%)	20.8%	22.6%	(180bps)	19.4%	140bps)	➔ EBITDA to be higher YoY owing to higher revenue and better margin
EBITDA	223	189	18%	157	42%	➔ EBITDA margin to be higher YoY owing to higher revenue and lower cost
EBITDA margin (%)	15.5%	16.7%	(120bps)	15.3%	20bps	➔ PAT to be higher YoY backed by lower cost and higher sales.
PAT	136	111	22%	91	49%	➔ EPS to be in line with PAT
EPS (Rs)	20.9	17.1	22%	14.0	49%	
G R Infraprojects Ltd						
Revenues	2291	1899	21%	2268	1%	➔ Revenue to be marginally higher YoY as execution improves.
Gross Profit	573	476	20%	588	-3%	➔ Gross margins to be lower owing to higher cost.
Gross margin (%)	25.0%	25.0%	0bps	25.9%	(90bps)	➔ EBITDA to lower on the back of higher cost YoY.
EBITDA	356	277	29%	403	-12%	➔ EBITDA margin to contract YoY but improve QoQ
EBITDA margin (%)	15.6%	14.6%	100bps	17.8%	(220 bps)	➔ PAT to be lower on YoY basis owing to higher cost
PAT	221	174	27%	265	-17%	➔ EPS to be in line with PAT
EPS (Rs)	22.8	18.0	27%	27.4	-17%	

Quarterly Preview– Q3FY23

Infra-Others

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
KEC International						
Revenues	4959	4375	13%	4275	16%	➔ Revenue to grow owing to better execution in T&D and Civil business segment ➔ Gross margins to be higher owing to softness in material cost. ➔ EBITDA to be higher owing to higher revenue. ➔ EBITDA margin to decline owing to elevated cost YoY but higher QoQ ➔ PAT to be lower YoY owing to elevated cost and higher interest cost ➔ EPS to be in line with PAT
Gross Profit	3025	2664	14%	2415	25%	
Gross margin (%)	61.0%	60.9%	70bps	56.5%	(10bps)	
EBITDA	258	200	29%	252	2%	
EBITDA margin (%)	5.2%	4.6%	110bps	5.9%	(170bps)	
PAT	55	18	211%	112	-51%	
EPS (Rs)	2.1	0.7	213%	4.4	-51%	
RITES Limited						
Revenues	739	677	9%	766	-4%	➔ Revenue to be impacted owing to lower export sales YoY but higher QoQ ➔ Gross margins to be higher owing to lower cost of export sale. ➔ EBITDA to be impacted marginally YoY owing to lower sale. ➔ EBITDA margin to be higher YoY owing to better consultancy revenue. ➔ PAT to be higher YoY owing to ➔ EPS to be in line with PAT
Gross Profit	428	409	5%	398	7%	
Gross margin (%)	58.0%	60.4%	(240bps)	52.0%	600bps	
EBITDA	202	193	5%	204	-1%	
EBITDA margin (%)	27.4%	28.5%	(110bps)	26.7%	70bps	
PAT	149	140	6%	137	9%	
EPS (Rs)	6.2	5.8	6%	5.7	9%	

Quarterly Preview– Q3FY23

Infra-Others

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
PSP Projects Limited						
Revenues	804	500	61%	555	45%	→ Revenue to grow owing to better execution YoY & QoQ. → Gross margins to be higher owing to lower material cost QoQ but lower YoY. → EBITDA to be higher YoY owing to higher sales. → EBITDA margin to be lower YoY on the back of rise in construction expenses. → PAT to be higherr YoY owing to higher sales. → EPS to be in line with PAT
Gross Profit	583	331	76%	412	42%	
Gross margin (%)	72.5%	66.1%	650bps)	74.2%	(190bps)	
EBITDA	100	62	61%	88	13%	
EBITDA margin (%)	12.4%	12.4%	0bps	15.9%	(350bps)	
PAT	65	35	84%	55	19%	
EPS (Rs)	18	10	84%	15	18%	
Ahluwalia Contracts (I) Ltd						
Revenues	1013	743	36%	731	39%	→ Revenue to grow owing to better execution YoY → Gross margins to be higher owing to lower cost.. → EBITDA to be higher owing to higher sales and better margin → EBITDA margin to decline marginally YoY. → PAT to remain higher owing to higher sales & margin YoY → EPS to be in line with PAT
Gross Profit	519	373	39%	369	40%	
Gross margin (%)	51.2%	50.2%	100bps	50.5%	70bps	
EBITDA	102	71	43%	64	61%	
EBITDA margin (%)	10.1%	9.6%	50bps	8.7%	40bps	
PAT	65	45	43%	42	52%	
EPS (Rs)	9.6	6.7	43%	6.3	52%	

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