

Infrastructure

Stable awarding; calibrated aggression

The NHAI had set a target of awarding 6,500 km in FY23, of which it awarded ~3,750 Km (vs. 6,306 Km in FY22) at an NHAI cost of INR 1trn. Ordering seems to have spilt over to FY24 with our checks suggesting ~INR 350bn of bids expected to be awarded during early H1FY24. During the year, HAM continued to be its preferred mode of awarding with 75/31/3 projects awarded on HAM/EPC/another basis. Competitive intensity reduced towards the FY23 end as developers maintained calibrated aggression. Non-road players outperformed their inflow guidance, while road players need to catch up on missed guidance.

Reduction in competition intensity

The competition intensity cooled off with the top-6 listed players placing their bids at an average of 14.3% over and above the NHAI cost vs. a 6.5% discount in FY22. Similarly, the top-6 unlisted players' bids were at a 4.8% premium over the NHAI cost vs. a 2.9% discount in FY22. Further, HAM projects were bid at an average premium of 6.7/4.4/2.8/5.6% in Q1/Q2/Q3/Q4FY23. However, EPC projects continued to be bid at an average discount of 5.4/22.2/21.4/28.7% in Q1/Q2/Q3/Q4FY23. Out of the total 109 projects awarded during the year, 38 projects worth INR 361bn were awarded at an L1 cost of INR 418bn i.e. an average premium of 16% over the NHAI cost whereas, 71 projects worth INR 683bn were awarded at an L1 cost of INR 573bn i.e. an average discount of 16% over the NHAI cost.

FY23 order inflows; very few companies surpass/meet their FY23 guidance

Out of the coverage universe, companies like LT, Ahlu, ASBL, DBL, HG Infra, KEC, and KPTL have either surpassed or met or marginally missed their FY23 order inflow (OI) guidance. Companies like JKIL, PNC, and KNR have not even achieved 50% of their FY23 OI guidance. This is more a function of broad-based ordering beyond roads and well-diversified companies benefitting from the same. Power T&D, Railways, Metro, Water, O&G, Hydrocarbon, and Building EPC are the other segments beyond roads which witnessed robust ordering. Pickup in export orders aided inflows for the EPC companies like LT, KEC and Kalpataru. We expect a pickup in domestic power grid awards for capital goods and railways and private capex pickup shall aid strong inflows.

Few states witness a high level of competition

Bihar and Maharashtra faced very high competition during the year with the spread between L1 cost and NHAI cost being more than -15%, while states like Haryana, Jharkhand, Punjab, etc. witnessed very low competition intensity with a spread above +5%. With the appetite of unlisted developers largely met, we expect H1FY24 awards to be won by tier-1 developers.

NHAI, Railways, Water, Power Grids, Metro expansion, Buildings, Defence sector and private capex to drive FY24 ordering

As we enter FY24, we expect ordering pickup to be broad-based with government capex key driver of ordering. Capital goods will benefit from the secondary impact of public capex and from brownfield capex/opex opportunity driven by productivity-linked savings. Sustainability and decarbonisation are other drivers of private capex.

Valuation remains supportive

Tier-1 infrastructure companies are trading at ~9.5x FY25E EPS. We expect the competitive intensity to reduce further. Infrastructure asset creation is the top priority, which may lead to robust ordering. **TOP PICKS: KNR, PNC Infra, HG Infra and NCC.** Within the **Capital Goods: L&T, Cummins India and Kalpataru** are our preferred picks.

Capital Goods: Recommendation Summary

Company	CMP (INR/sh)	Reco.	TP (INR/sh)
Larsen & Toubro	2,271	BUY	2,432
Siemens	3,353	ADD	3,313
ABB India	3,401	REDUCE	2,819
Cummins India	1,566	BUY	1,818
KEC International	469	REDUCE	392
Hitachi Energy India	3,203	ADD	3,438
Thermax	2,316	ADD	2,433
Kalpataru Power	523	BUY	708

Source: HSIE Research

Infrastructure: Recommendation Summary

Company	CMP (INR/sh)	Reco.	TP (INR/sh)
Dilip Buildcon	180	BUY	355
PNC Infratech	288	BUY	426
KNR Constructions	253	BUY	335
IRB Infra Developers	26	ADD	31
NCC	107	BUY	111
HG Infra Engineering	805	BUY	1,017
Ashoka Buildcon	76	BUY	131
Ahluwalia Contracts	554	BUY	568
PSP Projects	673	ADD	764
ITD Cementation	112	BUY	149
J. Kumar Infraprojects	258	ADD	387

Source: HSIE Research

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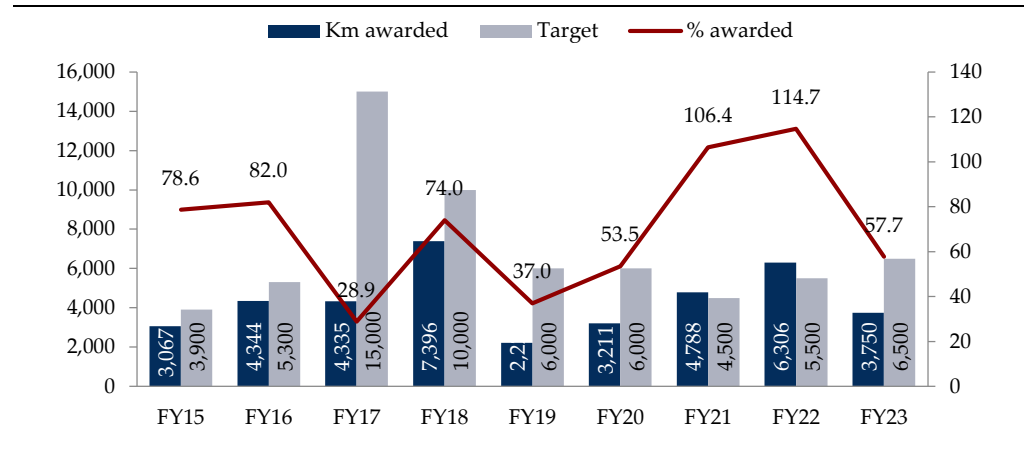
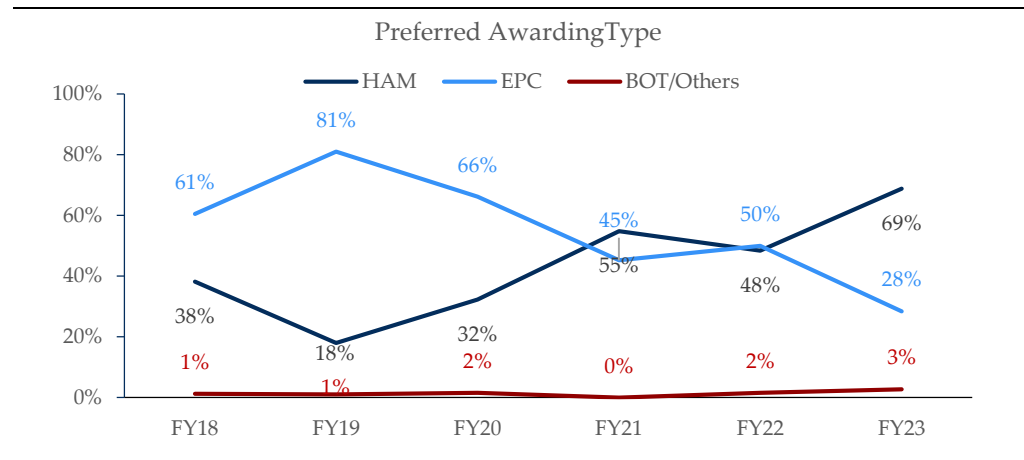
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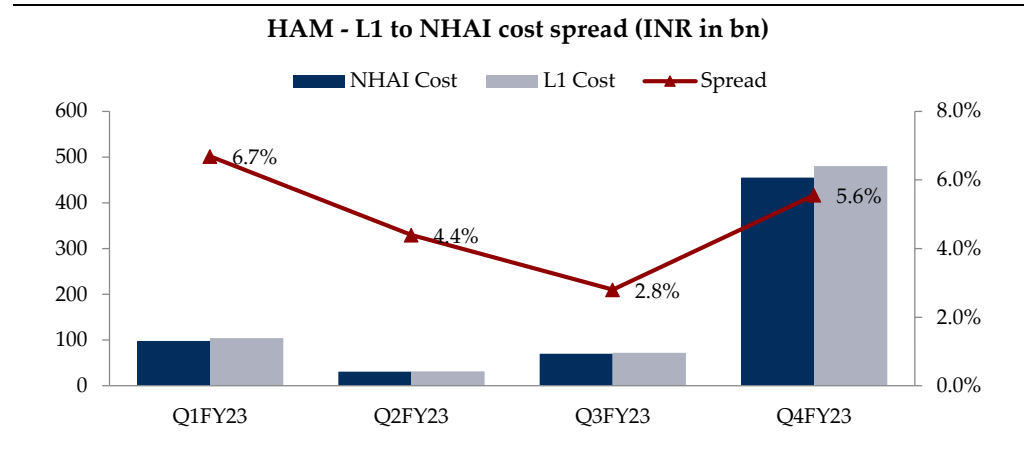
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NHAI awarding seems to spill over to H1FY24

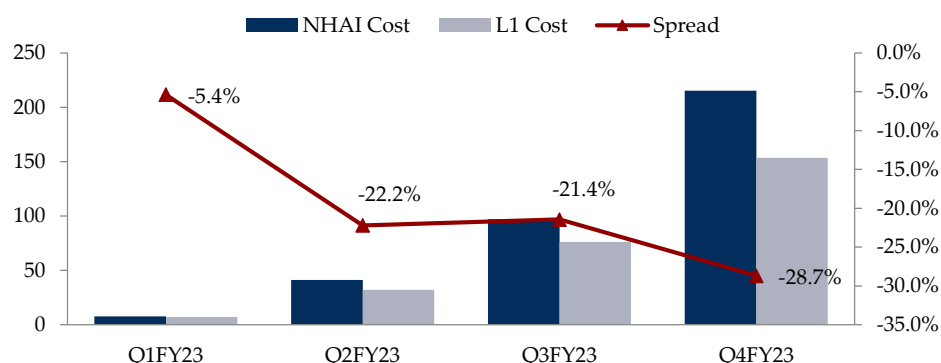
- During FY23, NHAI awarded 75/31/3 projects on HAM/EPC/Others basis. The total Km awarded stands at ~3,750 vs. ~6,300 Km in FY22.



- In the case of HAM projects competitive intensity eased off with projects bid at a premium over the NHAI cost.



EPC - L1 to NHAI cost spread (INR in bn)



- Out of 109 projects awarded during FY23, 38 projects worth INR 361bn were awarded at an L1 cost of INR 418bn i.e. an average premium of 16% over the NHAI cost whereas 71 projects worth INR 683bn were awarded at an L1 cost of INR 573bn i.e. an average discount of 16% over the NHAI cost.

FY23 order inflow snapshot

EPC/Infra Companies	OI Inflow (INR bn) FY23	OI Guidance FY23 (INR bn)	% order achieved	FY23 OB (INR bn)	FY23E Revenue (INR bn)	Book-to-Bill (x)
Ahluwalia Contracts	51	40	126%	91	30	3.0
Ashoka Buildcon	97	100	97%	177	60	3.0
Dilip Buildcon#	135	120	112%	300	100	3.0
GR Infra*	133	150	89%	274	NA	-
HG Infra	98	100	98%	152	45	3.4
IRB Infra	96	NA	-	212	60	3.5
ITD Cementation	88	NA	-	220	49	4.5
J Kumar	22	50	45%	117	43	2.8
KNR	20	50	41%	101	36	2.8
NCC	182	200	91%	504	126	4.0
PNC	49	100	49%	227	69	3.3
PSP Projects	34	40	85%	52	20	2.7
Cap Good Companies						
Larsen & Toubro	1,809	2,220	82%	4,165	1,814	2.3
KEC International	212	190	111%	346	159	2.2
Kalpataru Power Transmission	252	250	101%	471	145	3.2

*Under Review; # includes a project on JV basis where 50% exposure is assumed

Out of the coverage universe companies like LT, Ahlu, ASBL, DBL, HG Infra, KEC, KPTL have either surpassed or met or marginally missed their FY23 order inflow (OI) guidance. Companies like JKIL, PNC, KNR have not even achieved 50% of their FY23 OI guidance.

With INR 1.5trn OI in 9MFY23 and another INR 0.7trn expected in Q4FY23, LT is expected to meet its FY23 OI guidance of INR 2.2trn

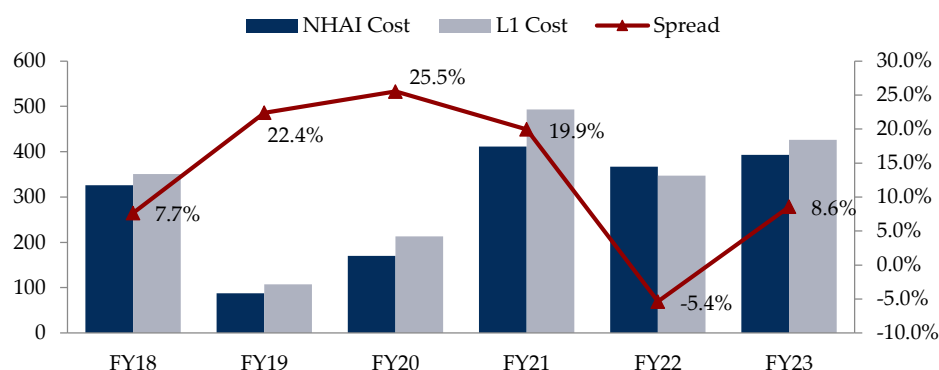
State-wise competition intensity

State Name	Historically Major Players and key beneficiaries	Recently Won highest bids (FY23)	State-wise assessment of competitive intensity (projects above INR 5bn) FY23
Andhra Pradesh	Lakshmi Infra, GR Infra, Megha, APCO, KNR, DBL, ASBL	Lakshmi Infra, GR Infra, Megha, APCO, PSK	Medium
Bihar	L&T, Ram Kripal Singh, DBL, Afcons, Gawar, ASBL, Rinfra	Ashoka, Ram Kripal Singh, PNC, GR Infra, SP Singla	Very High
Chhattisgarh	Afcons, gammon, Jkumar, NCC, Gawar, ASBL, HG Infra, L&T, Krishna Construction	Kalyan toll, DBL	High
Haryana	Gawar, HG Infra, APCO, GR Infra, DRA, KCC, Ceigall	APCO, DCC Infra, HG Infra, Ceigall	Very Low
Jharkhand	DBL, Barbrik, RamKripal Singh, Shivalaya, Rinfra, ASBL	Ceigall, Gawar, DBL, HG Infra	Very Low
Karnataka	DBL, ASBL, Afcons, KNR, PNC, HG Infra, Adani, Gulemark	KNR, GR Infra, DRN infra	High
Kerala	Megha, Vishwa Samudra, KNR, Shivalaya, ASBL, OSE, KCC	Ashoka	High
Madhya pradesh	Gr Infra, Bansal, Megha, PATH, Kalyan toll, L&T, DP Jain, Gawar	GR Infra, Kalyan Toll, Bansal, DBL, LCC Infra, Shreeji Infra	Medium
Maharashtra	Rinfra, GR Infra, Adani, IRCON, Megha, Shivalaya, Montecarlo, DBL, MEP, L&T, Gulemark, IJM	GR Infra, Megha, Roadway Solutions	Very High
Punjab	Ceigall, Krishna Construction, Megha, L&T, VRC, GR Infra, IRCON, PATH, ASBL	Gawar, PATH	Very Low
Telangana	DBL, Adani, Megha, HG Infra, KNR, ASBL, GR Infra	Megha, GR Infra, DRA	Low
Uttar Pradesh	PNC, CUBE, APCO, Gayatri Projects, IRB, DBL, Oriental, ITDC, Ravi Infra	APCO, Gawar, PNC, Raj Corp.	High
West Bengal	DRA, L&T, KCC, Simplex, Rachna Construction	Rachna Construction	Medium

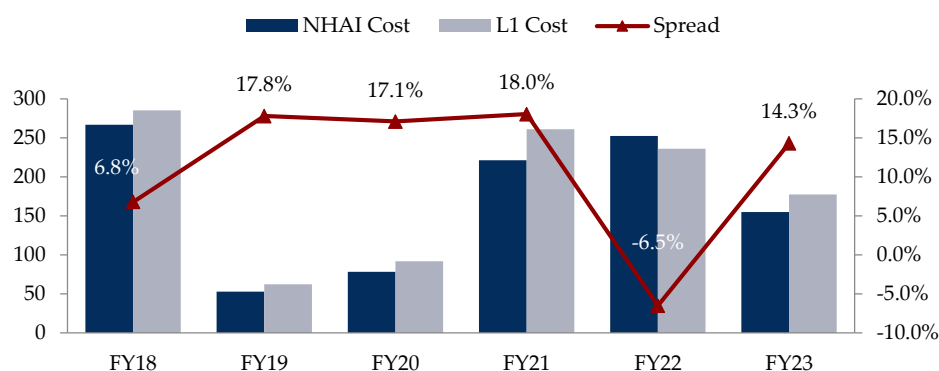
Very Low: L1 cost +5% and above over NHAI cost; Low: +5% to -5%; medium: -5% to -10%; High: -10% to -15%; Very High: -15% and above

Bidding analysis

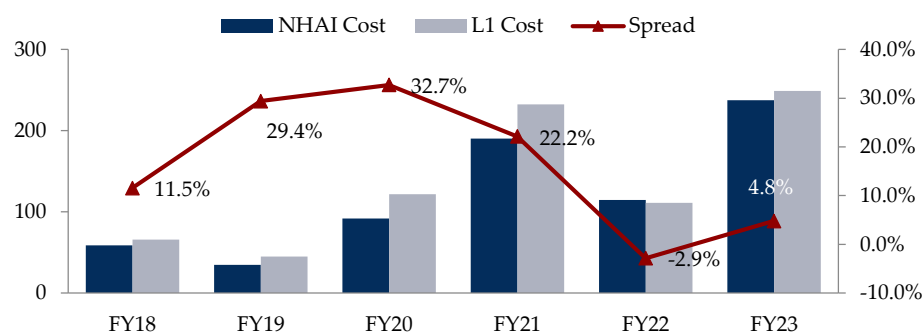
HAM - L1 to NHAI cost spread of Top-12 Players (INR in bn)



HAM - L1 to NHAI cost spread of Top-6 Listed Players (INR in bn)



HAM - L1 to NHAI cost spread of Top-6 Unlisted Players (INR in bn)



Composite Valuation Summary

Capital Goods	Mcap INR Bn	CMP (INR)	TP (INR)	Reco	Adj. EPS (INR/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Larsen & Toubro*	3,186	2,271	2,432	BUY	73.7	87.0	105.5	23.5	20.3	18.0	13.3	11.3	9.3	12.1	13.4	15.0
Siemens#	1,194	3,353	3,313	ADD	35.1	53.4	65.1	95.0	62.4	51.2	69.9	44.8	35.8	11.5	15.7	16.9
ABB India^	721	3,401	2,819	REDUCE	36.2	45.1	52.2	93.3	74.8	64.7	71.9	57.1	46.7	17.5	18.5	18.4
Cummins India	434	1,566	1,818	BUY	38.8	47.9	54.3	40.7	32.9	29.1	34.8	27.3	23.1	20.9	22.7	22.1
KEC International*	120	469	392	REDUCE	6.1	18.6	31.2	74.9	24.5	14.6	21.2	12.7	9.3	4.3	12.4	18.2
Hitachi Energy India	135	3,203	3,438	ADD	17.2	65.8	90.5	188.4	49.3	35.9	67.0	28.0	20.9	6.2	20.8	22.9
Thermax*	276	2,316	2,433	ADD	38.3	52.1	60.8	60.9	44.7	38.3	41.5	30.2	26.0	11.8	14.6	15.2
Kalpataru Power	85	523	708	BUY	34.5	42.1	58.6	15.2	12.4	8.9	7.9	6.5	4.7	19.4	21.2	26.1

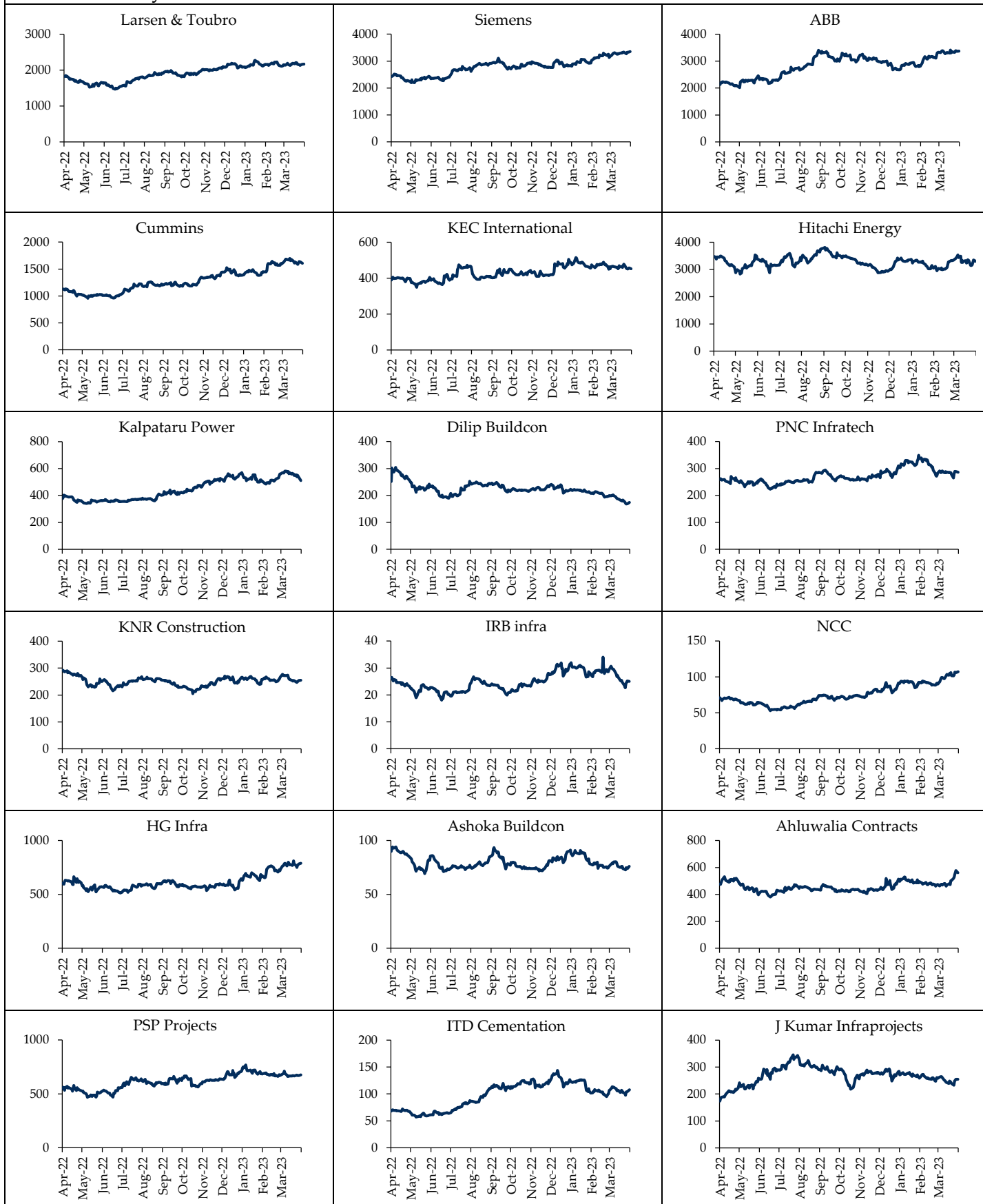
Source: Company, HSIE Research; * Consolidated; #Sep-YE; ^Dec-YE

Core EPC	Mcap (INR Bn)	CMP (INR)	TP (INR)	RECO	Adj. EPS (INR/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Dilip Buildcon	26	180	355	BUY	11.6	21.4	26.7	10.7	5.8	4.7	4.3	3.6	3.5	3.8	6.7	7.8
PNC Infratech	74	288	426	BUY	22.0	23.7	26.2	11.0	10.3	9.3	6.5	5.9	5.2	15.8	14.9	14.4
KNR Constructions	71	253	335	BUY	13.8	16.5	17.9	17.2	14.4	13.2	9.4	7.9	6.7	15.6	15.7	14.4
IRB Infra Developers*	156	26	31	ADD	0.8	1.0	1.4	30.6	26.0	18.5	10.4	9.2	8.5	3.9	4.5	5.9
NCC	66	107	111	BUY	8.2	11.5	12.6	13.1	9.2	8.5	5.8	4.5	4.3	8.3	10.7	10.5
HG Infra Engineering	52	805	1,017	BUY	59.8	65.2	66.4	12.4	11.4	11.2	7.8	6.8	6.3	25.0	21.6	18.1
Ashoka Buildcon	21	76	131	BUY	7.6	10.0	12.1	2.8	2.1	1.8	2.1	1.2	0.8	7.6	9.0	9.8
Ahluwalia Contracts	37	554	568	BUY	30.7	37.8	45.6	18.3	14.9	12.3	10.8	8.9	7.3	18.1	18.6	18.7
PSP Projects	24	673	764	ADD	42.7	53.0	60.7	15.8	12.7	11.1	10.1	8.1	6.9	20.6	21.5	20.7
ITD Cementation*	19	112	149	BUY	7.6	12.6	15.7	14.0	8.5	6.8	5.6	3.9	3.1	11.0	15.8	16.7
J. Kumar Infraprojects	20	258	387	ADD	37.7	40.4	43.9	6.8	6.3	5.8	3.5	3.1	2.5	12.9	12.2	11.9
Wt. Average^								17.9	14.8	12.0	8.0	6.8	6.1	11.7	12.1	12.0

*Consolidated; ^Excluding IRB Infra the P/E stands at 13.0/10.5/9.5x for FY23E/24E/25E

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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