Road Infra- Q4FY24 Result Preview

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Axis Securities Equity Research

INFRA-ROADQ4FY24 PREVIEW: BETTER EXECUTION & NEW ORDER INFLOWS CRITICAL FOR FUTURE GROWTH

We anticipate road construction companies under our coverage to report revenue, EBITDA, and APAT growth of 11%, 8%, and 8% respectively YoY. This expected growth can be attributed to improved execution by infrastructure companies, which consequently supported higher profitability during the quarter. We estimate EBITDA margins to be 15%, compared to 14.5% QoQ and 15.5% YoY. Historically, the second half of the year is a more favorable period for project execution for infrastructure companies, leading to improved profitability.

According to road ministry data, in the first 11 months of FY24, a total of 9,088 km of national highways were constructed, compared to 8,064 km during the same period last year, implying a 13% YoY growth.

In FY24, NHAI (National Highway Authority of India) independently constructed more roads, totaling 6,644 km compared to 5,544 km the previous year, marking a growth of 20%. Despite this progress, the government's target to build around 13,000 km of roads for FY24 was not fully met. Project awarding activity slowed down between April and January, with only 3,481 km awarded against the targeted 13,290 km of new roads. This delay was primarily due to stringent policy guidelines requiring land acquisition and obtaining all necessary clearances before project awards. Additionally, due to cost overruns in Bharatmala Phase I, the Ministry of Roads now requires cabinet approval before granting new project awards. However, any shortfall in awarding projects in FY24 is expected to be compensated for in FY25.

Most of our covered companies boast robust order book positions, offering substantial revenue visibility for the next 2-3 years. Order inflow has improved during the quarter compared to the previous quarter, as companies have secured projects not only in the road sector but also in railways, solar, and water supply. Diversification into non-road segments has strengthened their revenue profile. Many companies aim to generate 25%-30% of their revenue from segments other than roads to lessen dependency on road projects. Competitive intensity remains high, especially in EPC projects, but we anticipate execution to remain robust moving forward.

Toll collections through FASTag have shown robust performance, reaching Rs 41,900 Cr between April and Nov’23, with a daily run rate of Rs 170 Cr, marking a 14% increase YoY. Notably, NHAI achieved 75% of the annual toll collection target in just five months, driven by higher toll rates, improved road connectivity, and increased economic activity. This increased toll collection bodes well for asset monetization as NHAI aims to monetize its road assets.

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During FY24, NHAI's monetization receipts hit a record high of Rs 40,000 Cr, the highest in any financial year and 70% more than the previous fiscal year's Rs 23,650 Cr. Leveraging this opportunity, NHAI has monetized road assets worth Rs 15,968 Cr through Toll Operate & Transfer (TOT), Rs 15,700 Cr through Infrastructure Trust (InVIT), and Rs 8,646 Cr through Securitization via Special Purpose Vehicles (SPVs) until March 2024. This initiative will also benefit existing road developers seeking to monetize their assets.

NHAI's capital expenditure also reached a record high in FY24, standing at Rs 2.07 Lc Cr compared to Rs 1.73 Lc Cr in FY23, surpassing the budgeted Capex of Rs 2.5 Lc Cr.

Outlook: We anticipate the pace of project awarding to gain momentum in FY25, as the shortfall in projects awarded in FY24 is expected to be compensated for. A robust pipeline of tenders is in place, which is projected to accelerate NHAI's awarding pace. Many road projects under the central government's flagship program 'Bharatmala Pariyojana' for building highways and expressways are expected to gain momentum, leading to further improvement in road construction pace. Additionally, higher budgetary allocation for roads in the Interim Union Budget – 2024-25 will support the construction of more highways and expressways.

Moreover, the National Infrastructure Pipeline, aimed at developing the overall infrastructure of the country, will also support road construction moving forward. Since the majority of these projects will be awarded under EPC and HAM models, road construction companies will be the major beneficiaries of the government's infrastructure spending. The Road ministry is also looking to award many projects under the BOT (Built, Operate, Transfer) mode to reduce NHAI's debt burden.

With a robust and diversified order book, a healthy bidding pipeline, and softening commodity prices, we maintain a positive outlook on the sector.

Our preferred picks in the sector:

PNC Infratech Ltd; HG Infra Engineering Ltd; J Kumar Infraprojects Ltd

Quarterly Preview– Q4FY24

Road Infra

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
KNR Construction Ltd						
Revenues	1223	905	35%	1176	4%	
Gross Profit	370	272	36%	358	3%	
Gross margin (%)	30.3%	30.0%	30ps	30.5%	(20bps)	
EBITDA	205	147	39%	212	-3%	
EBITDA margin (%)	16.8%	16.3%	50bps	18.0%	(120bps)	
PAT	128	86	49%	129	-1%	
EPS (Rs)	4.5	3.0	49%	4.6	-1%	
PNC Infratech Ltd						
Revenues	2368	1803	31%	2115	12%	
Gross Profit	616	453	36%	518	19%	
Gross margin (%)	26.0%	25.1%	90bps	24.5%	150bps	
EBITDA	320	239	34%	281	14%	
EBITDA margin (%)	13.5%	13.3%	20bps	13.3%	20bps	
PAT	208	151	38%	184	13%	
EPS (Rs)	8.12	5.89	38%	7.19	13%	

KNR Construction Ltd – Result expectations

- ➔ Revenue to be higher YoY owing to better execution.
- ➔ Gross margins to be higher YoY owing to lower cost .
- ➔ EBITDA to be lower YoY .
- ➔ Ebitda margin to contract YoY owing to slower execution of irrigation projects
- ➔ PAT to be marginally lower YoY but higher QoQ owing to better sales.
- ➔ EPS to be in line with PAT

PNC Infratech Ltd – Result expectations

- ➔ Revenue to be higher owing to better execution YoY.
- ➔ Gross margins to be higher owing to higher sales and lower RM cost.
- ➔ EBITDA to be higher owing to better sales and margin.
- ➔ EBITDA margin to be higher YoY owing to higher sales and lower cost.
- ➔ PAT to be higherYoY.
- ➔ EPS to be in line with PAT

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
H.G. Infra Eng Ltd						
Revenues	1837	1346	36%	1470	25%	➔ Revenue to be higher owing to better execution YoY.
Gross Profit	408	314	30%	333	22%	➔
Gross margin (%)	22.2%	23.3%	(110bps)	22.7%	(50bps)	➔ Gross margins to be lower YoY owing to higher cost
EBITDA	292	214	36%	238	23%	➔ EBITDA to be higher YoYowing to higher revenue.
EBITDA margin (%)	15.9%	15.9%	0bps	16.2%	(30bps)	➔ Ebitda margin to be lower YoY.
PAT	176	206	-15%	148	19%	➔ PAT to be higher YoY backed by higher sales.
EPS (Rs)	27.0	31.5	-15%	22.7	19%	➔ EPS to be in line with PAT
G R Infraprojects Ltd						
Revenues	2095	1806	16%	1995	5%	➔ Revenue to be higher YoY as execution improves.
Gross Profit	513	441	16%	481	7%	➔
Gross margin (%)	24.5%	24.4%	10bps	24.1%	40bps	➔ Gross margins to be higher owing to lower cost .
EBITDA	283	228	24%	290	-2%	➔ EBITDA to be higher YoY & QoQ as sales improves.
EBITDA margin (%)	13.5%	12.6%	90bps	14.5%	(100bps)	➔ Ebitda margin to expand QoQ but lower YoY.
PAT	192	155	24%	192	0%	➔ PAT to be higher QoQ but flattish YoY as margin contracts
EPS (Rs)	19.9	16.1	24%	19.9	0%	➔ EPS to be in line with PAT

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)
J Kumar Infraprojects Ltd					
Revenues	1346	1219	10%	1134	19%
Gross Profit	327	302	8%	263	24%
Gross margin (%)	24.3%	24.7%	(40bps)	23.2%	110bps
EBITDA	194	180	8%	159	22%
EBITDA margin (%)	14.4%	14.7%	(30bps)	14.1%	30bps
PAT	86	83	4%	74	16%
EPS (Rs)	11.3	10.9	4%	9.8	16%

Result expectations

- Revenue to be higher YoY as execution improves.
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- Gross margins to be higher owing to lower cost .
- EBITDA to be higher YoY & QoQ as sales improves.
- Ebitda margin to expand YoY.
- PAT to be higher QoQ & YoY as sales increases.
- EPS to be in line with PAT

Quarterly Preview– Q4FY24

Infra-Others

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
KEC International						
Revenues	5967	5007	19%	5525	8%	→ Revenue to grow owing to better execution in T&D and Civill business segment → → Gross margins to be higher owing to softness in material cost. → EBITDA to be higher owing to higher revenue and lower cost YoY. → Ebitda margin to expand owing to reduced cost YoY & QoQ . → PAT to be higher YoY owing to higher revenue and lower cost → EPS to be in line with PAT
Gross Profit	3461	2810	23%	3160	10%	
Gross margin (%)	58.0%	56.1%	190bps	57.2%	80bps	
EBITDA	418	308	36%	283	47%	
EBITDA margin (%)	7.0%	6.1%	90bps	5.1%	190bps	
PAT	166	97	71%	72	130%	
EPS (Rs)	6.5	3.8	71%	2.8	130%	
RITES Limited						
Revenues	652	683	-4%	687	-5%	→ Revenue to degrow YoY & QoQ owing to lower export sale.. → → Gross margins to be lower YoY & QoQ owing to lower export sale → EBITDA to be impacted YoY & QoQ owing to lower export sale. → EBITDA margin to moderate YoY&QoQ → PAT to be lower YoY& QoQ owing to lower margin. → EPS to be in line with PAT
Gross Profit	341	368	-7%	396	-14%	
Gross margin (%)	52.3%	53.8%	(150bps)	57.7%	(540bps)	
EBITDA	156	169	-8%	192	-19%	
EBITDA margin (%)	23.9%	24.8%	(90bps)	27.9%	(400bps)	
PAT	114	121	-6%	132	-14%	
EPS (Rs)	4.7	5.0	-6%	5.5	-14%	

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
PSP Projects Limited						→ Revenue to grow owing to better execution YoY. → → Gross margins to be higher both QoQ & YoY . → EBITDA to be higher owing to higher sales and better margins YoY & QoQ → Ebitda margin to be higher QoQ on the back of rise in sales and lower cost. → PAT to be higher YoY owing to higher sales. → EPS to be in line with PAT
Revenues	803	705	14%	730	10%	
Gross Profit	132	112	18%	116	14%	
Gross margin (%)	16.5%	15.9%	60bps	15.9%	60bps	
EBITDA	95	70	36%	81	17%	
EBITDA margin (%)	11.8%	9.9%	190bps	11.1%	70bps	
PAT	51	31	65%	49	5%	
EPS (Rs)	14.2	8.6	65%	13	11%	
Ahluwalia Contracts (I) Ltd						→ Revenue to grow owing to better execution YoY. → → Gross margins to be higher QoQ owing to higher revenue & lower cost. → EBITDA to be higher owing to higher sales and better margin QoQ → EBITDA margin to expand marginally QoQ. → PAT to remain higher owing to higher sales & margin QoQ → EPS to be in line with PAT
Revenues	1122	1026	9%	863	30%	
Gross Profit	223	199	12%	180	24%	
Gross margin (%)	19.9%	19.4%	50bps	20.9%	(100bps)	
EBITDA	123	112	10%	110	12%	
EBITDA margin (%)	11.0%	10.9%	10bps	12.8%	(180bps)	
PAT	78	71	10%	72	8%	
EPS (Rs)	11.7	10.6	10%	10.8	8%	

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