

Infrastructure

The 'order-book-keeper' – Perfect platform to launch FY20

INDIA | INFRASTRUCTURE | Sector Update

20 February 2019

The order-book-keeper – our quarterly publication – is a tracker of the state of the orderbooks of the EPC companies. In this report we publish an exhaustive orderbook status of 15 construction companies (EPC and BOT), tracking the magnitude and break-up of the orderbooks, order inflows and some of their key orders. We also keep an eye on the share of stuck or slow moving orders, due to internal/external reasons. This 'one-stop' comparison helps investors take a more informed investment call for individual stocks vs. their peers.

Our Q3FY19 orderbook keeper furthers our sanguine outlook of the last quarter. **Almost all EPC companies currently have robust orderbooks – greater than 3.5x book-to-sales** (last year 2.0-2.5x book-to-sales) – providing high revenue visibility. The order inflow, of companies under coverage, remained decent in this quarter – Rs 182bn (-31% yoy), building on the momentum of last quarter (Rs 170bn). The yoy decline is solely due to one player (NCC) having an exceptional quarter of order inflows last year. Further to that, these companies have Rs 143bn of orders, which are either awaiting Appointed Date (AD) or are L1 – that are not yet part of the orderbook – further boosting the orderbooks and growth prospects.

As it is evident from the order inflow in this quarter, single segment road companies have seen relatively lower inflow of 'New' orders – on the back of slowdown in order award activity by NHAI. YTD, NHAI has awarded ~550km of projects – as compared to 7400km last year – leading to muted inflows. The inflow for road companies in this quarter was on the back of few orders, which were awarded in Feb-April 2018 period, formally becoming part of the orderbook now (after achieving FC/AD). On the other hand, companies like NCC, Ahluwalia and ITDC have witnessed decent order inflow from segments like buildings and metros. **It is for this reason, that we prefer companies with diversified orderbook (like NCC) – as they are better placed to withstand a slowdown in order award activity in any specific segment.**

Overall, the order award activity, and future pipeline continues to appear promising, with Rs 7trillion road orders to be awarded under Bharatmala and Rs 5trillion order awards expected in the buildings segment, driven by PMAY, over the next five years (read our detailed report [here](#)). However, **we expect the overall order award momentum to be weak in the coming quarters, given the upcoming elections. We expect the momentum to pick-up from 2QFY20.**

In our earlier report on HAM projects (read [here](#)), we had raised the concern regarding the pending financial closure (FC) of the HAM projects in the orderbooks – especially given the state of the banking system. At that time, players like IRB, Sadbhav, PNC, KNR and Dilip, had more than 40% of their orderbooks comprising of HAM projects awaiting FC. As of now, most companies have managed to achieve FC for most of their projects – albeit on inferior terms (lower debt funding, higher equity investment upfront, higher interest rate).

However, a new minor (and hopefully temporary) concern that has cropped up is the **magnitude of projects awaiting "Appointed Date" (AD) from NHAI.** Many of the HAM projects, that have achieved FC, are facing delays in starting execution due to NHAI not providing them the AD. **As of Dec-18 KNR/Sadbhav/Dilip/IRB have 72%/61%/51%/42% of their orderbooks awaiting AD** – which is impacting their execution in FY19, and possibly FY20. We see this as a temporary issue, and expect the same to get resolved in next few months.

We maintain our positive stance on the sector and see EPC companies delivering superior returns over the next 12-18 months. **Our top picks are NCC (strong diversified orderbook, strong balance sheet), Ahluwalia Contracts (+20% ROE, net cash balance sheet), Ashoka Buildcon (strong EPC business, attractive BOT portfolio) and PNC Infratech (robust orderbook, strong balance sheet). KNR Construction is likely to remain subdued** in the near term, due to the back ended nature of its orderbook. We remain **negative on ITD Cementation**, with its inconsistent execution track record and unattractive positioning with respect to segments with maximum opportunity.

Companies

Nagarjuna Construction (NCC)	BUY
CMP, Rs	82
Target Price, Rs	150
(Q3FY19 Result Update)	Click here
Ahluwalia Contracts	BUY
CMP, Rs	254
Target Price, Rs	350
(Q3FY19 Result Update)	Click here
KNR Construction	NEUTRAL
CMP, Rs	203
Target Price, Rs	220
(Q3FY19 Result Update)	Click here
PNC Infratech	BUY
CMP, Rs	132
Target Price, Rs	190
(Q3FY19 Result Update)	Click here
ITD Cementation	SELL
CMP, Rs	100
Target Price, Rs	100
(Q4FY19 Result Update)	Click here
IRB Infrastructure	NEUTRAL
CMP, Rs	112
Target Price, Rs	155
(Q3FY19 Result Update)	Click here
Ashoka Buildcon	BUY
CMP, Rs	109
Target Price, Rs	170
(Q3FY19 Result Update)	Click here
Sadbhav Engineering	BUY
CMP, Rs	165
Target Price, Rs	230
(Q3FY19 Result Update)	Click here
NOT RATED COMPANIES	CMP, Rs
Dilip Buildcon	461
JKumar Infraprojects	119
Gayatri Projects	148
Simplex Infrastructures	150
Hindustan Construction (HCC)	12
Capacite Infraprojects	192
PSP Projects	388

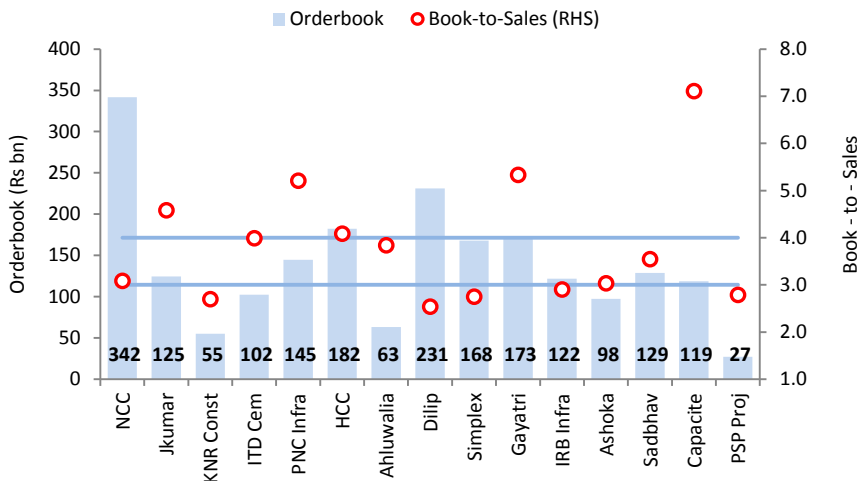
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Growth to be driven by the robust orderbooks

Our Q3FY19 ‘orderbook keeper’ demonstrates that almost all EPC companies currently have strong orderbooks, representing >3.5x book-to-sales. Few like PNC and Capacite have orderbooks at relatively higher book-to-sales.

Most EPC companies have orderbooks in the range of 3-4x book-to-sales



Almost all EPC companies currently have decent orderbooks, representing >3x book-to-sales (Incl New/L1)

Source: Companies, Phillip Capital India Research

Order inflows muted in roads – strong in other segments

The EPC sector has witnessed decent order inflow in the last four quarters. The order inflow in this quarter – Rs 182bn (-31% yoy), remained strong – as was in the last quarter (Rs 170bn), and earlier quarter too. The yoy decline in order inflow in this quarter was solely due to NCC having an exceptional quarter of inflows last year.

Roads sector witnessed relatively lower inflow of ‘New’ orders – on the back of slowdown in order award activity by NHAI. YTD, NHAI has awarded ~550km of projects – as compared to 7400km last year – leading to muted inflows. On the other hand, companies like NCC, Ahluwalia and ITDC have witnessed decent order inflow from segments like buildings and metros.

Order inflow has been strong over the last FIVE quarters

Rs mn	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	New/L1
NCC	1,15,687	32,678	26,496	32,148	45,115	-
Jkumar	172	1,623	14,544	14,755	18,742	20,000
KNR	1,786	-3,816	2,098	2,678	1,582	39,750
PNC	36,135	1,009	345	606	25,730	65,125
ITD Cementation	-427	22,319	6,180	7,606	10,365	6,504
Ahluwalia	6,701	-540	16,296	4,236	14,711	10,000
HCC	-221	3,607	4,567	13,837	2,008	-
Dilip Buildcon	948	1,40,889	26,385	14,685	16,529	-
Simplex	13,601	29,692	7,650	4,973	13,874	-
IRB	724	85,962	592	-	-	-
Ashoka	4,915	6,085	56,892	-	6,946	2,142
Sadbhav	27,685	47,095	13,748	16,200	-	-
Gayatri	29,709	1,332	5,228	47,113	8,779	-
Capacite	9,015	8,229	53,155	7,071	14,614	-
PSP	17,658	777	777	3,839	3,861	-
Total	2,64,086	3,76,941	2,34,952	1,69,748	1,82,856	1,43,521
% YoY	173%	91%	89%	128%	-31%	

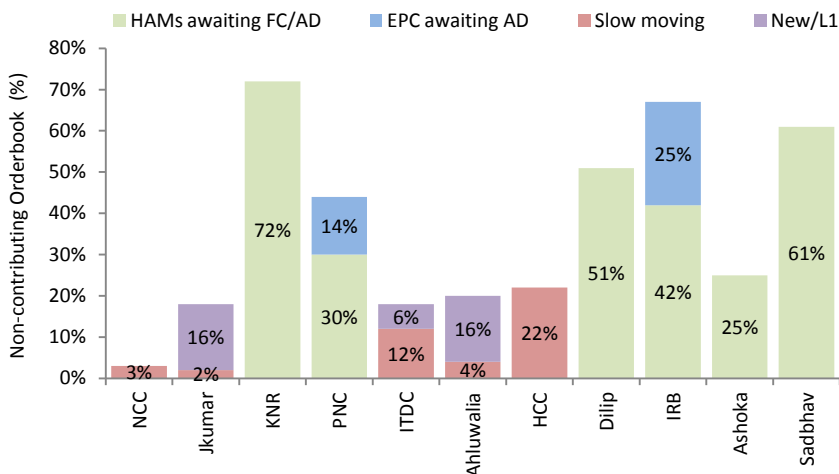
Source: Companies, Phillip Capital India Research

- NCC has reported strong order inflows over last five quarters, driven by buildings, irrigation and metro orders.
- JKumar and KNR have reported muted order inflow, over last few quarters.
- Sadbhav, IRB, PNC and Dilip Buildcon have reported strong order inflows over the last few quarters, on the back of the HAM wins.

Large part of orderbooks awaiting ‘Appointed Dates’

While the orderbooks appear strong for almost all the companies, many of the HAM (as well as few EPC) projects with the developers, are facing delays in starting execution. due to NHA not providing them the Appointed Dates (AD). As of Dec-18 KNR/Sadbhav/Dilip/IRB have 72%/61%/51%/42% of their orderbooks awaiting AD – rendering large part of the orderbooks non-contributing to the revenues. We see this as a temporary issue, and expect the same to get resolved in next few months.

Over 40% of the orderbook is non-contributing for five players



High share of HAM/EPC projects awaiting Appointed Dates in the orderbooks of players like KNR, Sadbhav, Dilip, IRB and PNC.

NCC, Ahluwalia, Ashoka, Jkumar and ITDC appear much better placed

HAM projects – From FC trouble to AD delay

NHA awarded 3400km of HAM projects (of the total 7400km) in FY18 – over 75% of them, in the last few months of FY18. On the back of these HAM project wins, orderbooks of some of the developers have acquired a high concentration of HAM projects. For players such as Ashoka, Sadbhav, PNC, KNR and Dilip Buildcon, more than 50% of their orderbooks (incl. L1) comprise of HAM projects.

In our earlier report on HAM projects (read [here](#)) we had raised the concern regarding the pending financial closure (FC) of the HAM projects in the orderbooks – especially given the state of the banking system. As of now, most companies managed to achieve FC for most of their projects – albeit on inferior terms (lower debt funding, higher equity investment upfront, higher interest rate).

While the FC issues have got resolved, the new trouble of AD (Appointed Date) has cropped up. Many HAM projects, that have achieved FC, are witnessing delays in NHA confirming their Appointed Dates – delaying execution on them. While we are NOT really concerned with it, and view it more as of timing issue – it will lead to few companies (like Sadbhav, Dilip) missing their FY19 revenue guidance – the execution having now moved to FY20. The growth in FY20 too, depends on “when”, in FY20, projects are awarded their Appointed Dates.

High share of HAM projects in the orderbooks of few developers

Company (Rs mn)	Tot OB	HAM Projects	OB Share	HAMs Awaiting	
				FC/AD	OB Share
Sadbhav Engg	1,28,725	64,472	50%	41,750	32%
Ashoka Buildcon	97,512	48,934	50%	24,747	25%
KNR Construction	55,158	39,750	72%	39,750	72%
PNC Infra	1,44,775	71,820	50%	43,490	30%
IRB Infra	1,21,673	50,830	42%	50,830	42%
Dilip Buildcon	2,31,008	1,38,434	60%	1,17,669	51%
Total	7,78,851	4,14,240	53%	3,18,236	41%

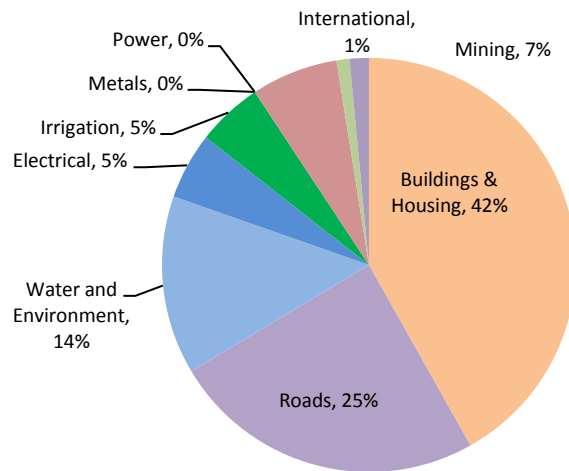
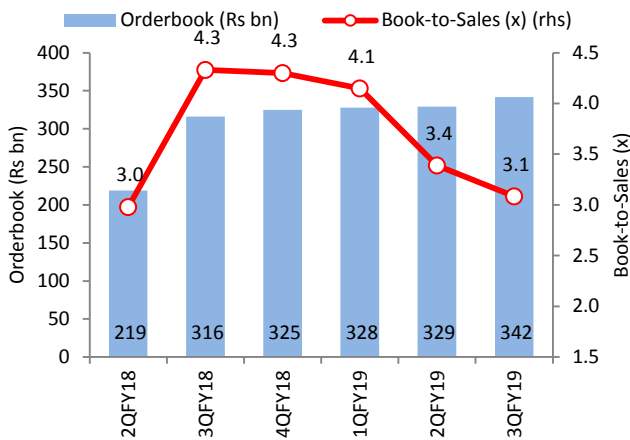
Source: Companies, PhillipCapital India Research (OB = Orderbook)

Surge in HAM project awards, in the ending months of FY18, means many companies are sitting with high share of HAM projects in their orderbooks

EPC orderbooks – trend and segmental break-up

NCC (Orderbook = Rs 342bn; 3.1x book-to-sales)

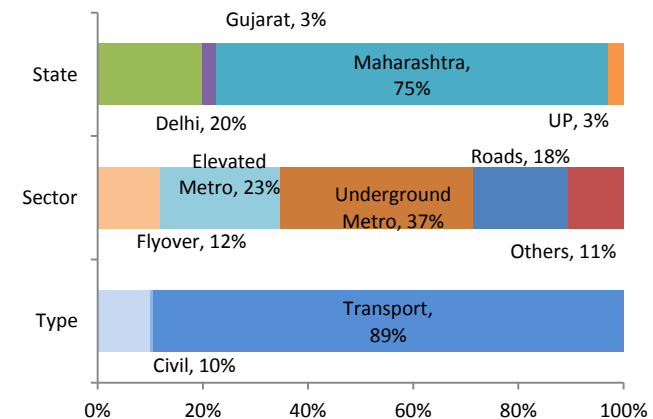
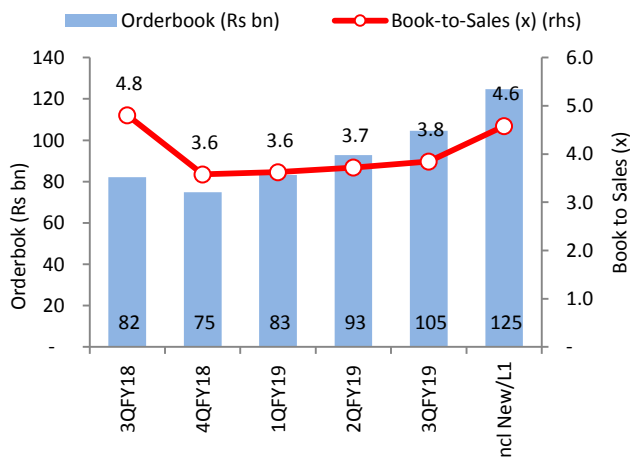
Slow moving < 4%



Source: Companies, Phillip Capital India Research

JKumar (Orderbook = Rs 125bn; 4.6x book-to-sales)

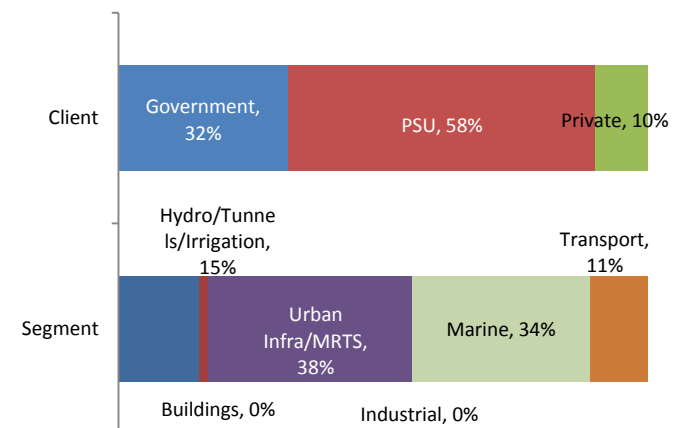
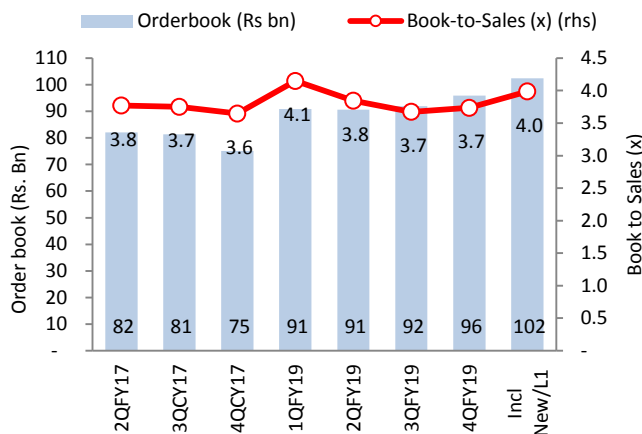
Slow moving < 3%



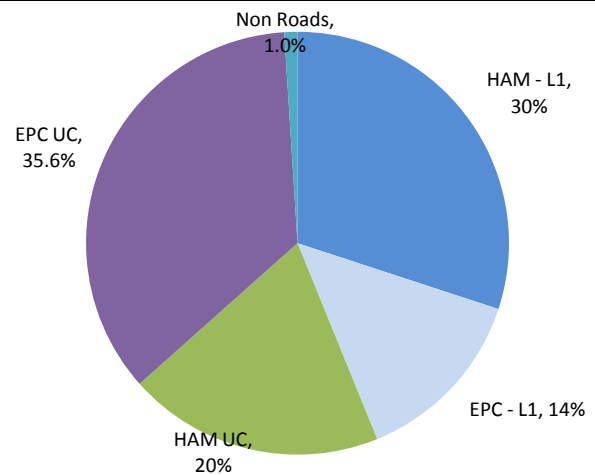
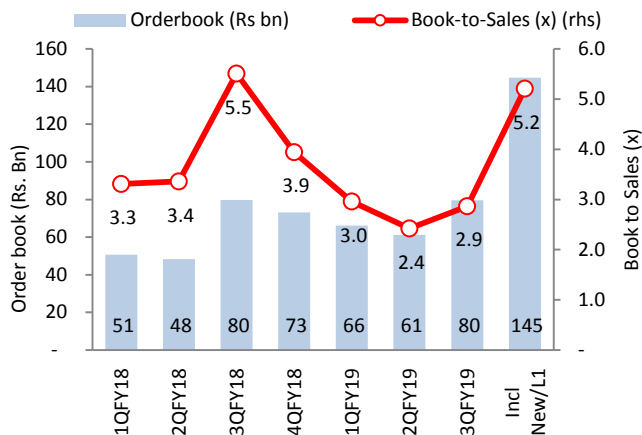
Source: Companies, Phillip Capital India Research (break-up for OB excl New orders)

ITD Cementation (Orderbook = Rs 102bn; 4.0x book-to-sales)

Slow moving = 12%

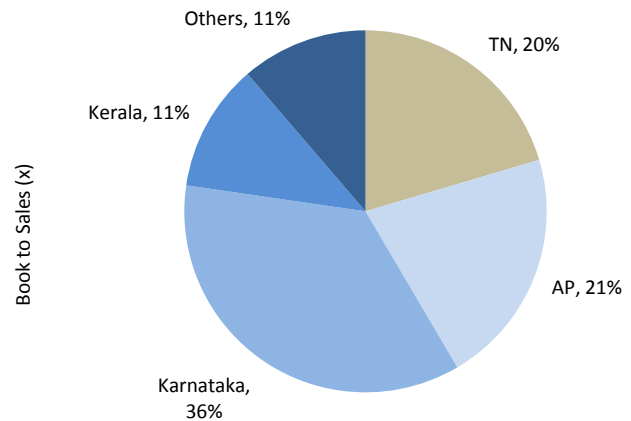
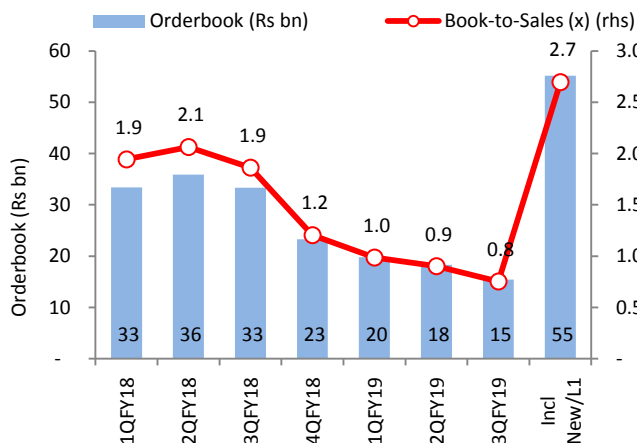


Source: Companies, Phillip Capital India Research

PNC Infratech (Orderbook = Rs 145bn; 5.2x book-to-sales)
Yet to start = 45% (HAMs + New orders)


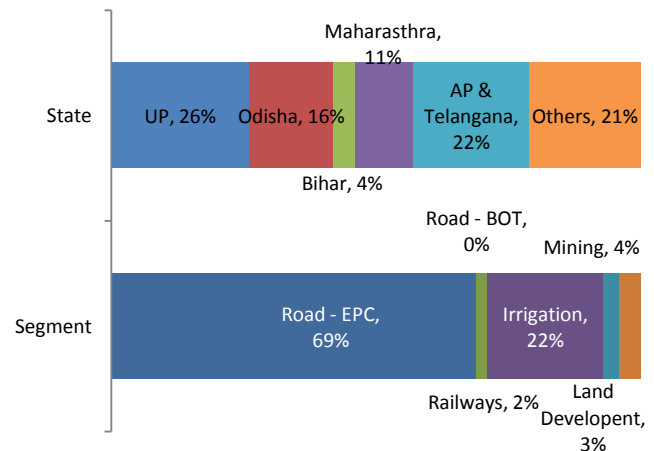
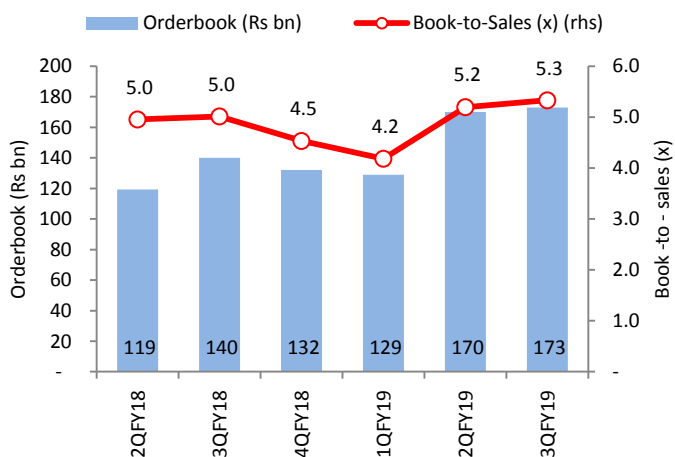
Source: Companies, Phillip Capital India Research

Break-up for 2QFY19 orderbook – excl New orders

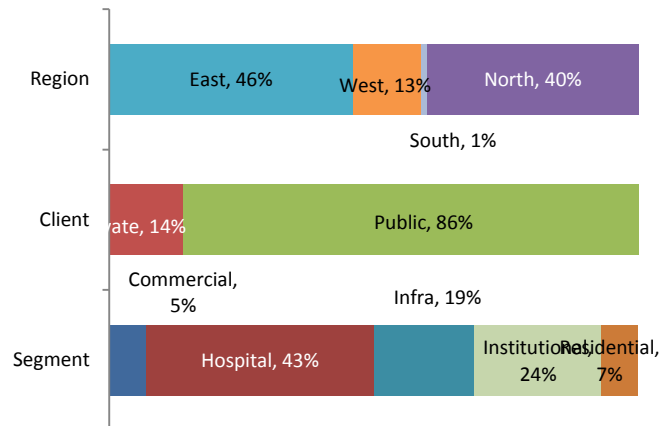
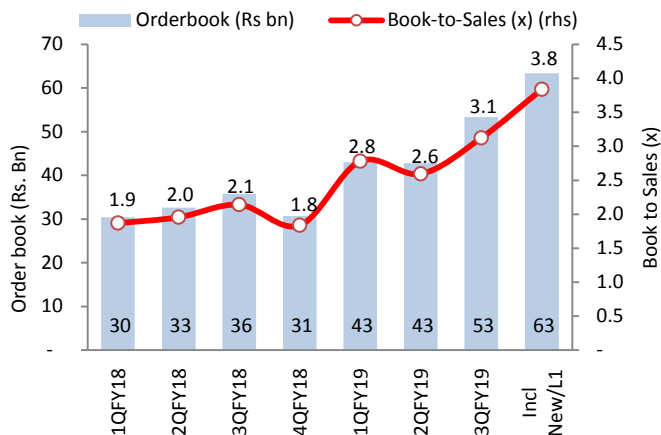
KNR (Orderbook = Rs 55bn; 2.7x book-to-sales)
Yet to start = 72% (HAMs)


Source: Companies, Phillip Capital India Research

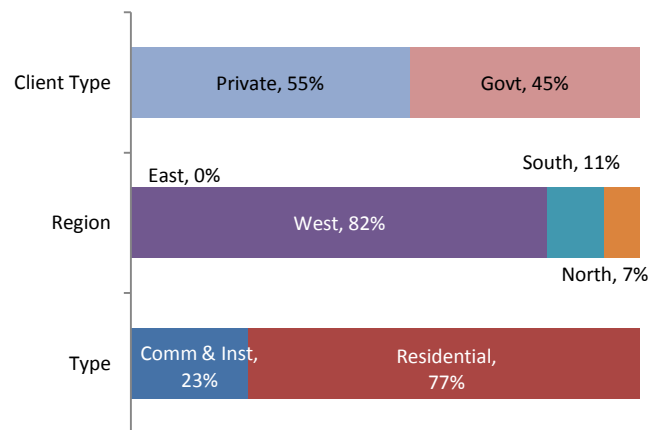
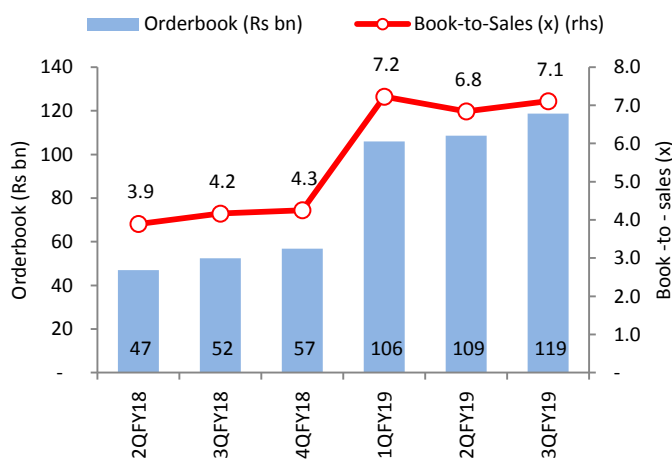
Break-up for 2QFY19 orderbook – excl New orders

Gayatri Projects (Orderbook = Rs 173bn; 5.3x book-to-sales)
Slow moving = NA


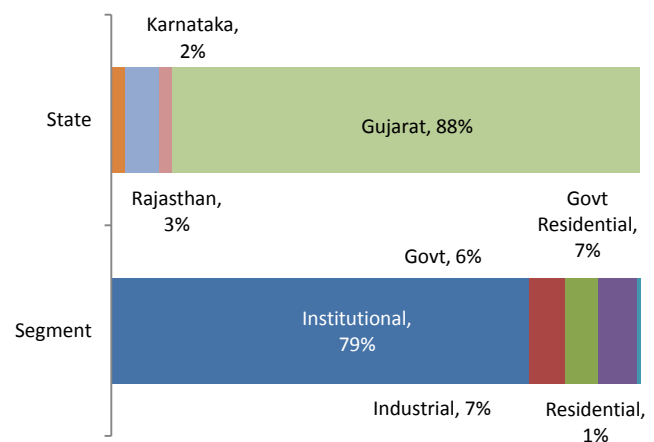
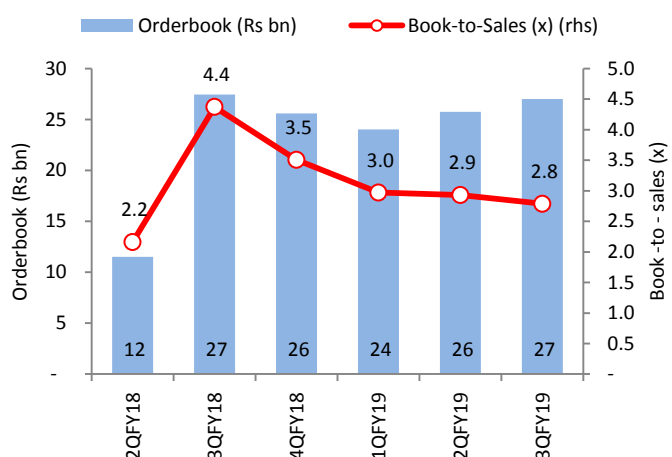
Source: Companies, Phillip Capital India Research

Ahluwalia Contracts (Orderbook = Rs 63bn; 3.8x book-to-sales)
Slow moving = 4%


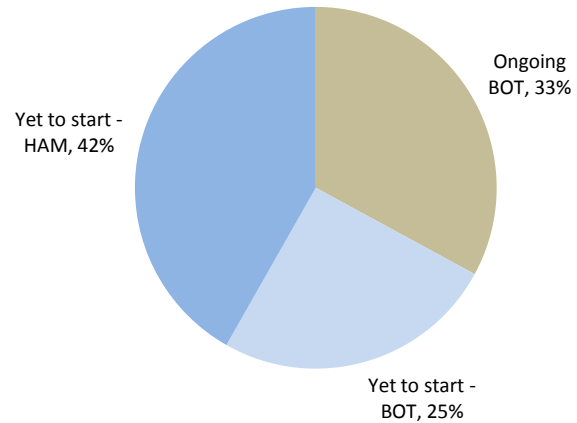
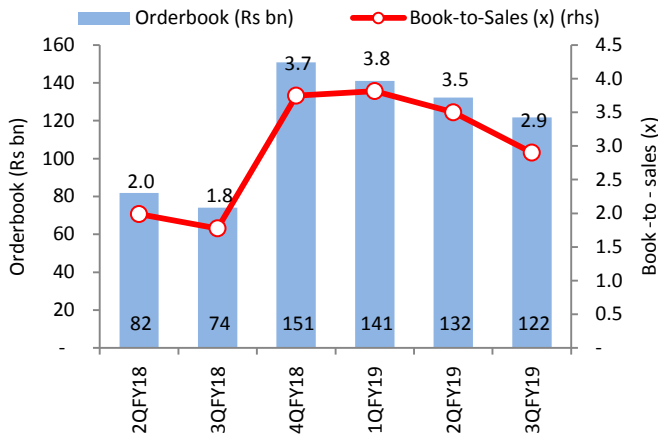
Source: Companies, Phillip Capital India Research (break-up for OB excl New orders)

Capacite Infraprojects (Orderbook = Rs 119bn; 7.1x book-to-sales)
Slow moving = NA


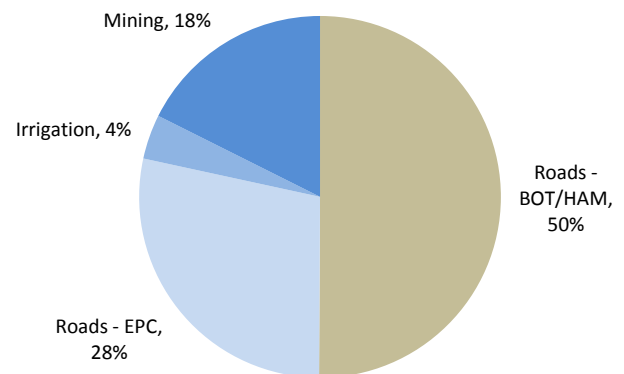
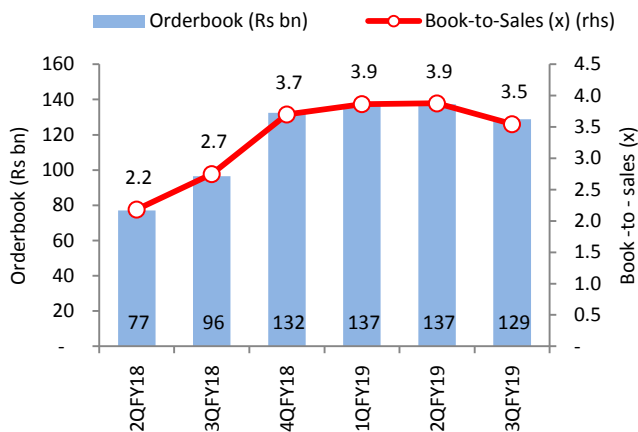
Source: Companies, Phillip Capital India Research

PSP Projects (Orderbook = Rs 27bn; 2.8x book-to-sales)
Slow moving = NA


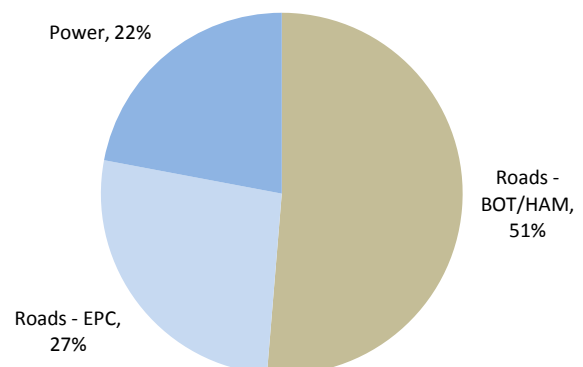
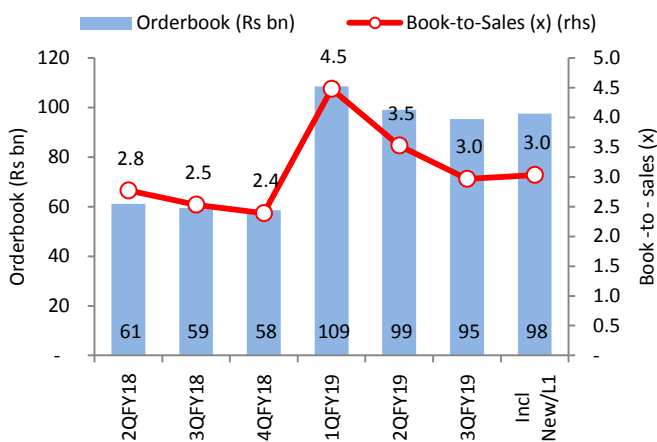
Source: Companies, Phillip Capital India Research

IRB Infrastructure (Orderbook = Rs 122bn; 2.9x book-to-sales)
Yet to start = 67% (HAMs and BOT)


Source: Companies, Phillip Capital India Research

Sadbhav Engineering (Orderbook = Rs 129bn; 3.5x book-to-sales)
Yet to start = 61% (HAMs + EPC)


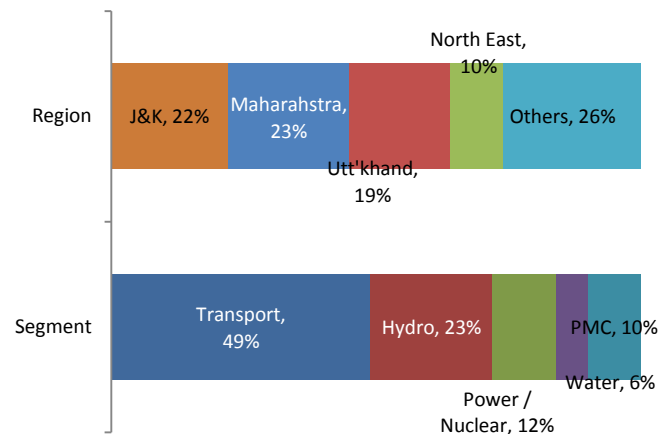
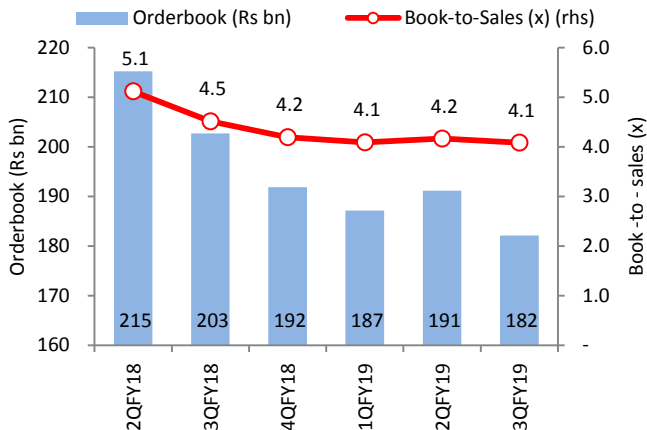
Source: Companies, Phillip Capital India Research

Ashoka Buildcon (Orderbook = Rs 98bn; 3.0x book-to-sales)
Yet to start = 25% (HAMs)


Source: Companies, Phillip Capital India Research

HCC (Orderbook = Rs 182bn; 4.1x book-to-sales)

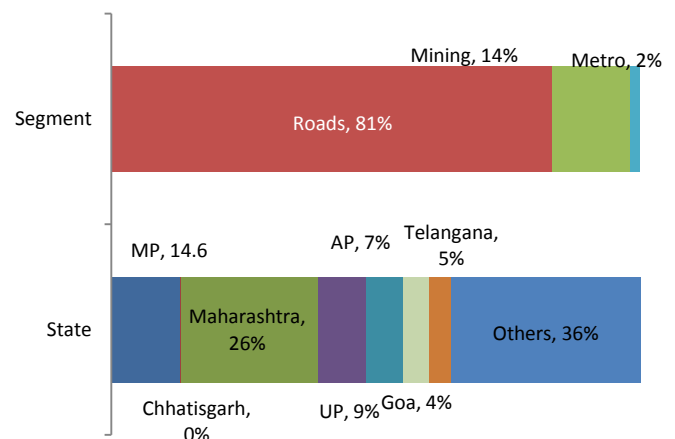
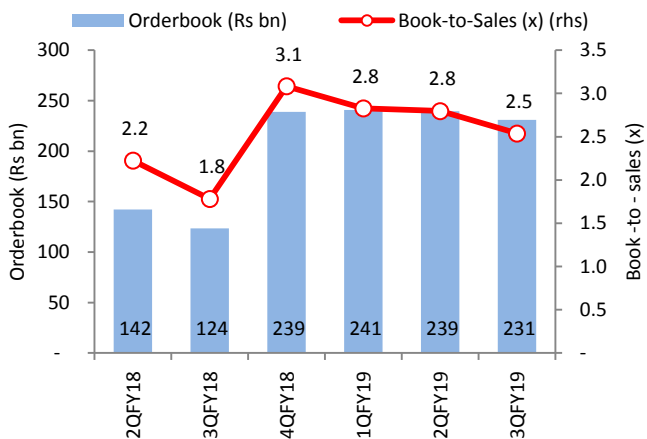
Slow moving = 22% (projects in J&K)



Source: Companies, Phillip Capital India Research

Dilip Buildcon (Orderbook = Rs 231bn; 2.5x book-to-sales)

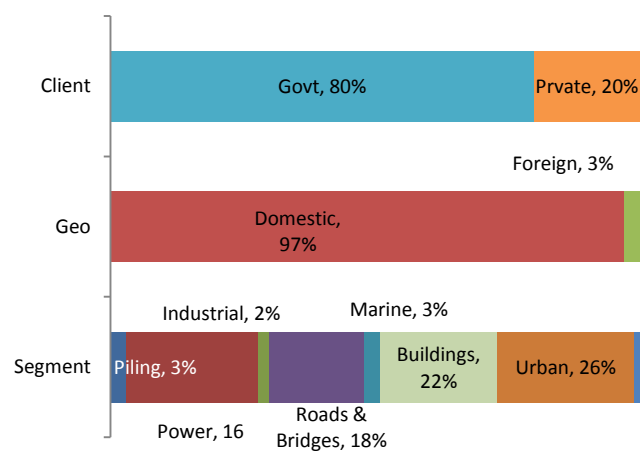
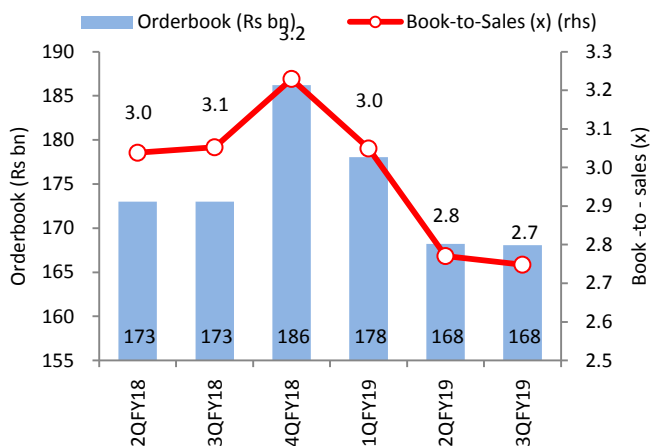
Yet to start = 51% (HAMs)



Source: Companies, Phillip Capital India Research

Simplex Infra (Orderbook = Rs 168bn; 2.7x book-to-sales)

Slow moving = NA



Source: Companies, Phillip Capital India Research

Our Recommendations

Company	Mkt Cap		Rating	Price		EPC Target Multiple	Our Target EPC Valuation	BOT/Others Valuation	CMP implied FY21 PE (EPC)
	Rs bn	CMP		Target	% Upside				
IRB Infra	39.4	112.0	NEUTRAL	155	38%	9.0	129	26	4.6
Ashoka Buildcon	30.6	109.0	Buy	170	56%	10.0	105	65	4.2
Sadbhav Engg	28.3	165.0	Buy	230	39%	8.0	133	97	4.1
NCC	49.3	82.0	Buy	145	77%	11.0	145	-	6.0
KNR	28.5	203.0	NEUTRAL	220	8%	11.0	182	38	10.1
ITD Cementation	17.2	101.0	SELL	100	-1%	11.0	100	-	11.2
PNC Infra	33.9	132.0	Buy	190	44%	12.0	149	41	7.5
Ahluwalia	17.0	254.0	Buy	350	38%	12.0	350	-	8.8

Source: Company, PhillipCapital India Research

Valuations

Infrastructure sector – valuation table

Company	P/E		EV/EBITDA		ROE		D/E		P/BV	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
IRB Infra	6.7	-68.5	7.4	9.0	7.6	-0.7	2.4	2.4	0.5	0.5
Ashoka Buildcon	11.4	10.5	7.3	6.3	11.2	10.8	0.5	0.5	1.3	1.1
Sadbhav Engg	12.4	10.0	8.3	7.0	9.9	10.9	0.6	0.5	1.2	1.1
NCC	7.2	6.0	4.4	3.8	12.8	13.4	0.4	0.3	0.9	0.8
KNR	16.9	12.4	7.1	5.5	10.9	13.0	0.1	0.1	1.8	1.6
ITD Cementation	12.0	11.2	6.2	5.6	11.6	11.1	0.6	0.6	1.4	1.2
PNC Infra	13.3	10.8	7.6	6.4	11.2	12.2	0.4	0.5	1.5	1.3
Ahluwalia	10.1	8.8	5.2	4.4	18.3	17.5	0.0	0.0	1.9	1.5

Company	Revenue		EBITDA		PAT		EPS		Debt	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
IRB Infra	68,927	68,055	28,332	24,382	5,859	-574	16.7	-1.6	187,637	197,845
Ashoka Buildcon	46,150	55,380	5,769	6,922	2,690	2,903	9.6	10.3	12,099	14,099
Sadbhav Engg	43,130	50,031	4,960	5,754	2,286	2,824	13.3	16.5	13,847	12,847
NCC	145,434	165,795	15,998	18,237	6,852	8,207	11.4	13.7	22,501	20,501
KNR	25,015	31,269	4,127	5,159	1,685	2,301	12.0	16.4	2,003	1,003
ITD Cementation	33,026	37,980	3,633	4,178	1,430	1,529	8.3	8.9	6,886	7,886
PNC Infra	39,100	48,874	5,591	6,989	2,546	3,134	9.9	12.2	9,197	11,697
Ahluwalia	22,130	25,450	2,932	3,372	1,677	1,941	25.0	29.0	296	296

Company	Orderbook Rs bn	Book-to-Bill	Revenue growth		EBITDA Margin		Earnings Growth		WC Days	
			FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
IRB Infra	122	2.9	4%	-1%	41%	36%	-35%	-110%	-	-
Ashoka Buildcon	98	3.0	30%	20%	13%	13%	-5%	8%	78	86
Sadbhav Engg	129	3.5	15%	16%	12%	12%	-6%	24%	207	192
NCC	342	3.1	21%	14%	11%	11%	21%	20%	137	136
KNR	55	2.7	25%	25%	17%	17%	-25%	37%	61	67
ITD Cementation	102	4.0	0%	15%	11%	11%	-5%	7%	118	121
PNC Infra	145	5.2	35%	25%	14%	14%	4%	23%	140	138
Ahluwalia	63	3.8	20%	15%	13%	13%	28%	16%	116	127

Source: PhillipCapital India Research

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