

Infrastructure

The 'order-book-keeper' – Mixed trends; Momentum picking up

INDIA | INFRASTRUCTURE | Sector Update

18 February 2020

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 Q3FY20 orderbook evokes mixed reactions. While on one hand, the quarter saw **significant order cancellations by various players**, impacting the net order inflow for the quarter – we observe that the gross order inflow remained strong (same as last quarter). **Almost all EPC companies currently have decent orderbooks – 2-3x book-to-sales** (average 3.3x, last year average 3.6x). So while the revenue visibility has slightly declined, the **GROSS order inflow was strong in Q3, at Rs 209bn (+6% yoy)**. Multiple project cancellations by companies (NCC, IRB, Simplex) translated into **NET order inflow of Rs 7bn only**.

The NHAI order award activity has been quite lackadaisical over last few quarters, due to the challenges it faced in land acquisition. NHAI awarded only ~2250km of projects in FY19 – as compared to 7400km in FY18; and has awarded less than 3500km YTD in FY20. Having said that, we have seen NHAI order award activity pick in last few weeks, with PNC/Ashoka grabbing orders of Rs 51bn/Rs10bn in this quarter already. **We expect NHAI to continue this order award momentum in Q4FY20 – which would mean road companies might witness decent order inflow**. Due to muted order award activity from NHAI YTD, we have seen orderbooks depleting for single-segment road companies (like IRB, KNR, PNC, HG Infra) and other road dependent players (like Sadbhav, Ashoka, Dilip) – these companies stand to gain the most now.

Segments like buildings, metro and irrigation have seen continuous (though sporadic) order inflow from different parts of the country. We expect this to continue, and **govt bodies to award incrementally more orders, as they start executing their FY21 plan, post announcement of Union Budget FY21**. We expect significant order awards in Metros (Delhi, Patna, Bangalore), Buildings (PMAY across India) and irrigation (State and Centre) segments, in 1HFY21. Due to this, companies with diversified orderbooks might see decent order inflow.

A persistent issue, over the last few quarters, has been the share of HAM projects in the orderbooks, awaiting AD. That issue appears to have been largely resolved now. As of now, **the companies have only Rs 57bn of orders, awaiting ADs** – with only 10%/15%/19% of orderbooks for KNR/Ashoka/PNC now awaiting ADs. **Read our detailed report on HAM projects [here](#)**.

Another concern that had cropped up, in last few quarters, was the **status of current and future projects in the states of AP and Maharashtra**. The new state govt in AP, after cancelling multiple projects awarded by the earlier govt (*accusing it of graft*) – has now taken a reconciliatory approach, and has started work on some projects (primarily PMAY projects). Projects in Maharashtra appear to be running as scheduled (after initial scare of cancellation/postponement) – including metro projects (like Mumbai, Pune) and expressway projects (like Mumbai Nagpur). Any positive development on this front (negative has already been largely factored) would augur well for the sector, and companies.

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 PNC Infratech** (*robust orderbook, strong balance sheet*), **Ashoka Buildcon** (*robust BOT/HAM portfolio, strong balance sheet, BOT deal trigger*), **NCC** (*cleaned-up diversified orderbook, strong balance sheet*), and **KNR Construction** (*strong balance sheet, strong orderbook*). We remain **negative on ITD Cementation** (*inconsistent execution track record, unattractive segmental positioning*).

Companies

Nagarjuna Construction (NCC)	BUY
CMP, Rs	42
Target Price, Rs	100
(Q3FY20 Result Update)	Click here
PNC Infratech	BUY
CMP, Rs	200
Target Price, Rs	300
(Q3FY20 Result Update)	Click here
Ashoka Buildcon	BUY
CMP, Rs	98
Target Price, Rs	170
(Q3FY20 Result Update)	Click here
KNR Construction	BUY
CMP, Rs	287
Target Price, Rs	365
(Q3FY20 Result Update)	Click here
Ahluwalia Contracts	NEUTRAL
CMP, Rs	320
Target Price, Rs	320
(Q3FY20 Result Update)	Click here
IRB Infrastructure	BUY
CMP, Rs	100
Target Price, Rs	140
(Q3FY20 Result Update)	Click here
ITD Cementation	SELL
CMP, Rs	56
Target Price, Rs	50
(Q3FY20 Result Update)	Click here
Sadbhav Engineering	NEUTRAL
CMP, Rs	89
Target Price, Rs	110
(Q3FY20 Result Update)	Click here
NOT RATED COMPANIES	CMP, Rs
Dilip Buildcon	352
JKumar Infraprojects	141
JMC Projects	81
Simplex Infrastructures	50
H.G. Infra Engineering	240
Capacite Infraprojects	176
PSP Projects	520

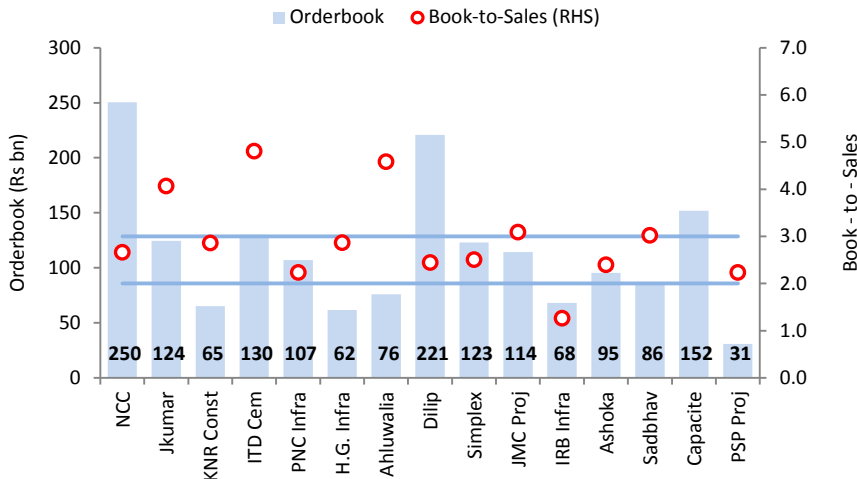
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Growth to be driven by the decent orderbooks

Our Q3FY20 ‘orderbook keeper’ demonstrates that almost all EPC companies currently have decent orderbooks, representing 2-3x book-to-sales. Few like ITDC, Ahluwalia and Capacité have orderbooks at relatively higher book-to-sales. IRB Infra relatively, has the weakest orderbook.

Most EPC companies have orderbooks in the range of 2.0-3.0x book-to-sales



Almost all EPC companies currently have decent orderbooks, representing 2-3x book-to-sales

Source: Companies, Phillip Capital India Research

NET inflow impacted by cancellations; Gross remains strong

The NET order inflow was weak in this quarter – Rs 7bn (-96% yoy). However, this was largely due to record order cancellations in this quarter, by various players (NCC< IRB, Simplex). Adjusting for that, and the new/L1 order received, the GROSS order inflow for the quarter stood at strong Rs 209bn (+6% yoy, last four quarter average Rs 183bn). The order inflow was boosted by strong order award activity across segments (excluding Roads).

We have already seen NHAI order award activity pick in last few weeks, with PNC/Ashoka grabbing orders of Rs 51bn/Rs10bn in this quarter already. We expect NHAI to continue this order award momentum in Q4FY20 – which would mean road companies might witness decent order inflow. As other govt bodies also start awarding incremental orders (as they start executing their FY21 plan), we expect significant order awards in Roads (NHAI, other states), Metros (Delhi, Patna, Bangalore), Buildings (PMAY) and irrigation (State and Centre) segments, in 1HFY21.

Multiple order cancellations led to weak NET order inflow in Q3FY20

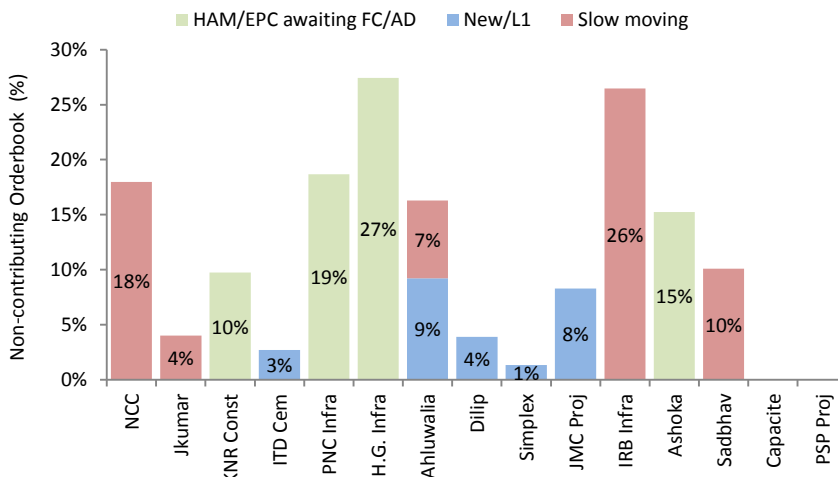
Rs mn	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Cancellation	New/L1	3QFY20
					Net Inflow			Gross Inflow
NCC	45,115	1,04,009	-55,143	14,100	-60,068	71,000	-	10,932
Jkumar	18,742	8,754	-997	43,713	-1,080			-1,080
KNR	1,582	31,905	10,828	10,358	12,760		6,350	19,110
PNC	25,730	53,207	618	-23	-725		19,970	19,245
ITD Cementation	10,365	9,908	8,670	15,994	23,221		3,500	26,721
Ahluwalia	14,711	11,884	2,838	6,373	11,093		7,000	18,093
H.G. Infra	15,934	8,773	141	4,742	10,218		1,130	11,348
Dilip Buildcon	16,529	6,420	1,452	30,729	32,937		8,605	41,542
Simplex	13,874	7,897	6,556	11,106	-23,028	23,000	1,640	1,612
IRB	2,240	3,533	9,673	18,889	-31,728	30,000	-	-1,728
Ashoka	6,946	1,645	6,511	1,394	15,904		14,544	30,448
Sadbhav	547	-6,231	4,197	-7,234	-3,550	7,000	-930	2,520
JMC Projects	6,940	9,695	11,149	4,707	17,188		9,500	26,688
Capacite	14,614	1,556	2,502	45,233	889			889
PSP	3,861	6,153	7,313	1,015	3,101			3,101
Total	1,97,731	2,59,107	76,307	2,01,097	7,133	1,31,000	71,309	2,09,442
% YoY	-22%	-40%	-71%	84%	-96%			6%

Source: Companies, Phillip Capital India Research

Very little part of orderbooks now stuck or delayed

As companies (like NCC, IRB) cancelled stuck orders from their orderbooks, and road companies (like Ashoka, KNR) received Appointed Dates (AD) for their projects – the ‘stuck’ part of orderbooks have declined significantly. Currently only 10%/15%/19% of orderbooks for KNR/Ashoka/PNC are awaiting AD. At the same time, while 18% of orderbook for NCC is still in AP – execution has picked up pace there as well. 26% of the orderbook for IRB is made up of O&M contracts, which are to be executed over long term.

Less than 20% of the orderbook is non-contributing for any player



26% of orderbook for IRB is the O&M contracts for BOT projects, spread over more than 10 years – technically NOT ‘slow moving’ but will contribute little to the revenues in near term

NCC has 18% orderbook in AP – on which execution is slowly gaining momentum

Source: Companies, PhillipCapital India Research

(*NCC – Entire orderbook in AP assumed to be slow moving)

(*IRB – 26% of orderbook comprises long term O&M contracts)

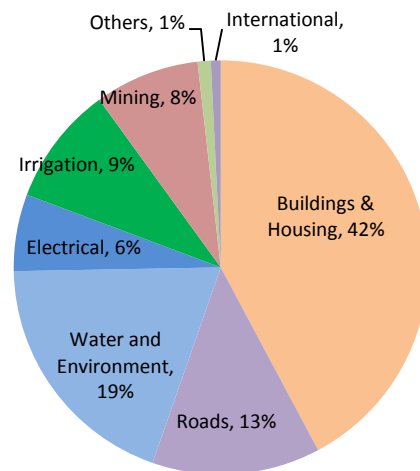
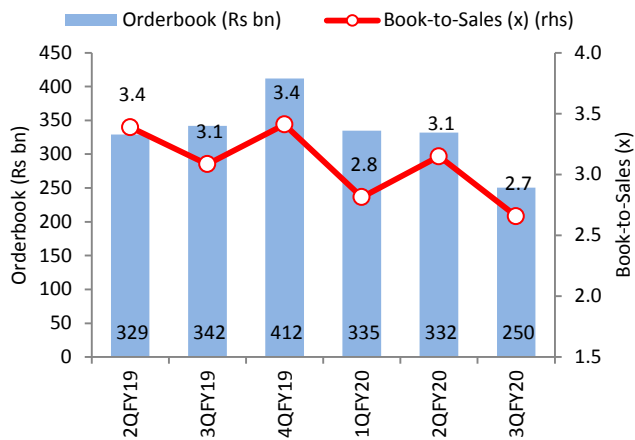
Projects in the state of AP – limping back into execution

A major concern that had cropped up, in last few quarters, was the status of current and future projects in the states of AP and Maharashtra. The new state govt in AP, after cancelling multiple projects awarded by the earlier govt (*accusing it of graft*) – has now taken a reconciliatory approach, and has started work on some projects (primarily PMAY projects). Any positive development on this front (negative has already been largely factored) would augur well for the sector, and companies.

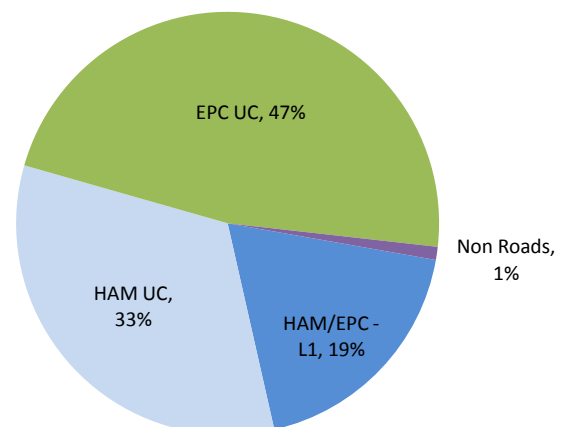
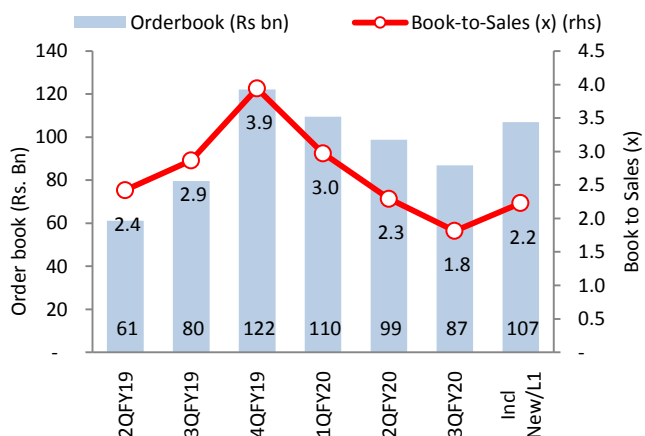
On the other hand, after an initial scare of stopping work, projects in Maharashtra appear to be running as scheduled – including metro projects (like Mumbai, Pune) and expressway projects (like Mumbai Nagpur). The new government appears to be tracking the same path of infrastructure development, as its predecessor – though projects like Bullet train, appear to have been put on the back-burner.

While it is natural to extrapolate this development to other states, we find it highly unlikely that any other state will see similar (in)action by a new govt. Historically too, much more fiercely competing political parties have exchanged power in various states (*UP, Rajasthan, Karnataka, Maharashtra*) but never before has any state govt cancelled any order in a unilateral manner like the AP govt did, earlier this year. We see this more of an aberration, than the norm.

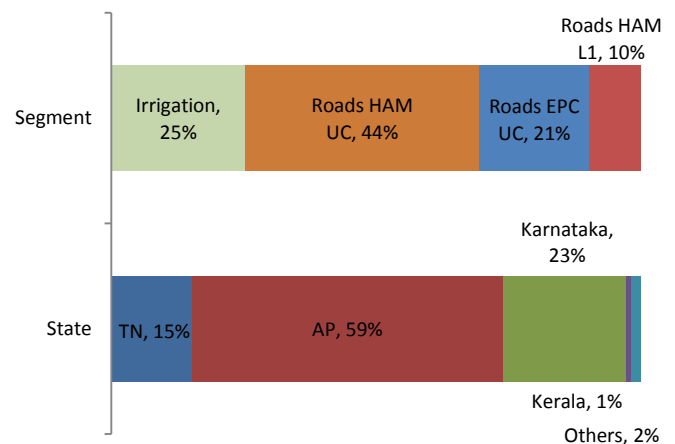
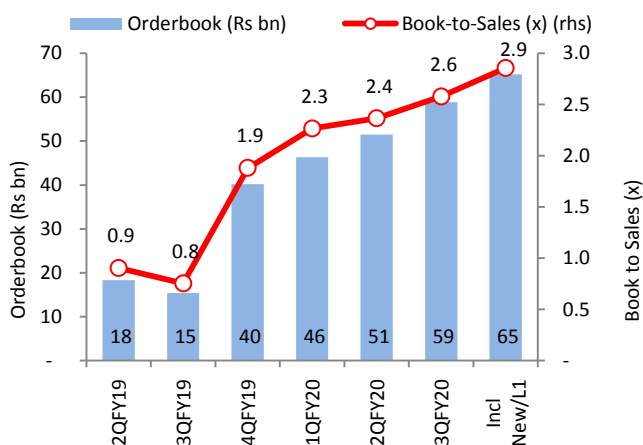
EPC orderbooks – trend and segmental break-up

NCC (Orderbook = Rs 250bn; 2.7x book-to-sales)
Slow moving = 18% (projects in AP)


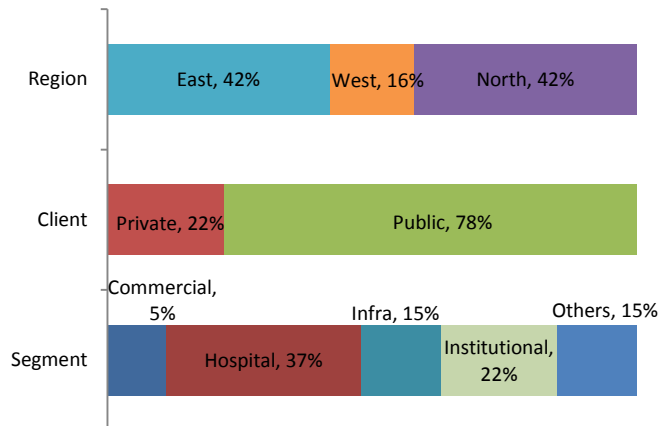
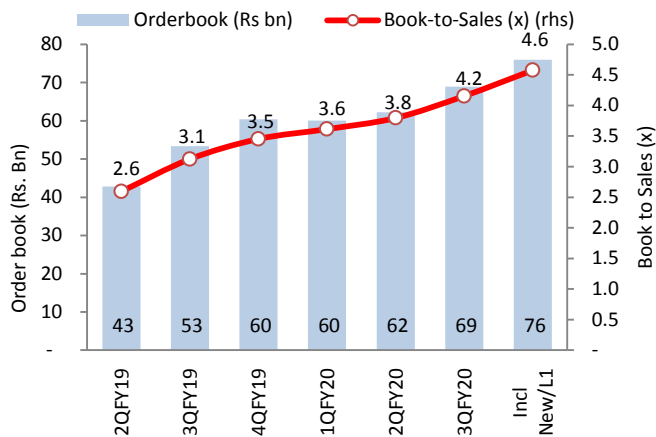
Source: Companies, Phillip Capital India Research

PNC Infratech (Orderbook = Rs 107bn; 2.2x book-to-sales)
Yet to start = 19% (HAM+EPC)


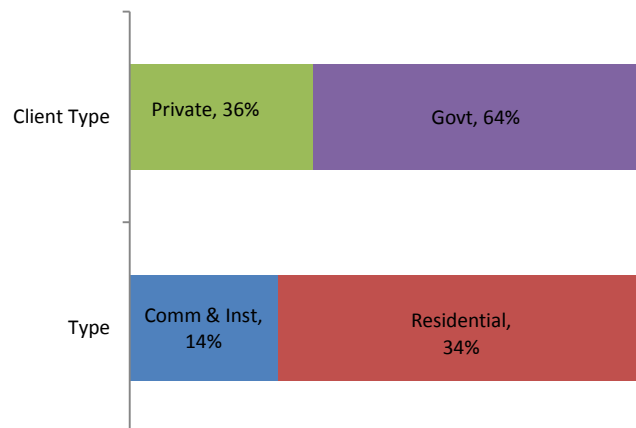
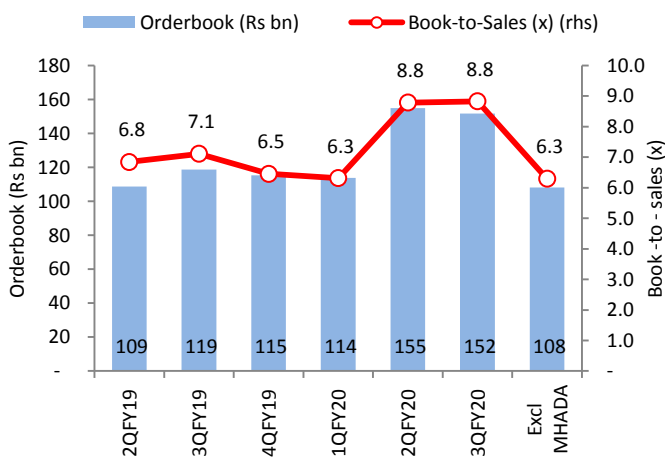
Source: Companies, Phillip Capital India Research (break-up for OB excl New orders)

KNR (Orderbook = Rs 65bn; 2.9x book-to-sales)
Yet to start = 10% (HAMs)


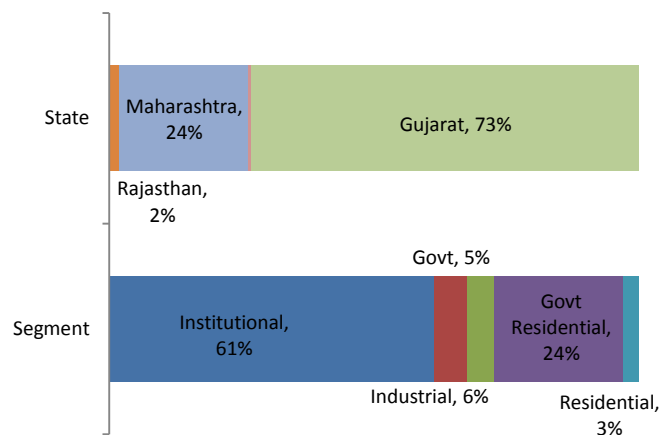
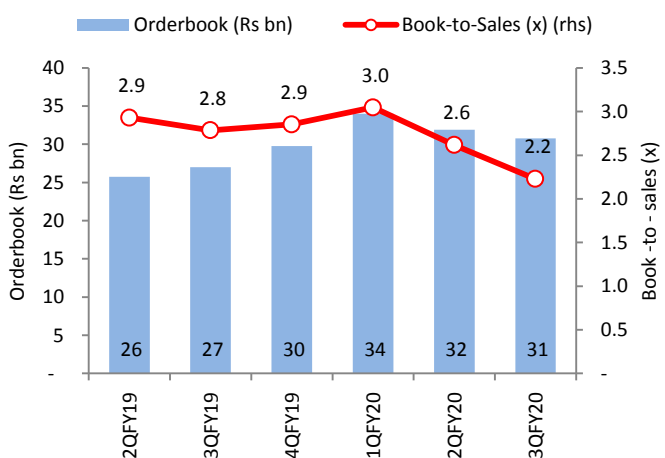
Source: Companies, Phillip Capital India Research (break-up for OB excl New orders)

Ahluwalia Contracts (Orderbook = Rs 76bn; 4.6x book-to-sales)
Slow moving = 7% (Charbagh); L1 = 9%


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

Capacite Infraprojects (Orderbook = Rs 108bn; 6.3x book-to-sales)
Slow moving = NA


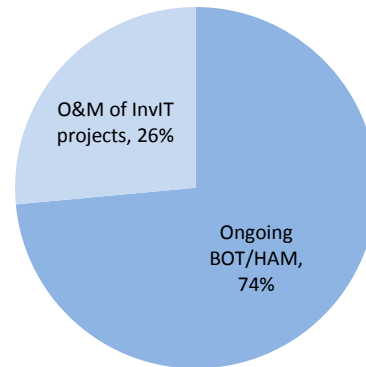
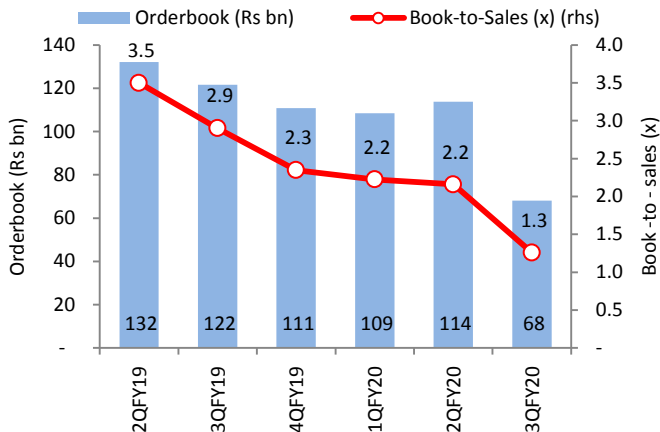
Source: Companies, Phillip Capital India Research (break-up for OB incl MHADA order)

PSP Projects (Orderbook = Rs 31bn; 2.2x book-to-sales)
Slow moving = NA


Source: Companies, Phillip Capital India Research

IRB Infrastructure (Orderbook = Rs 68bn; 1.3x book-to-sales)

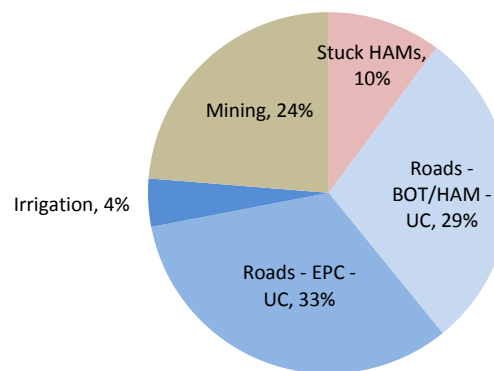
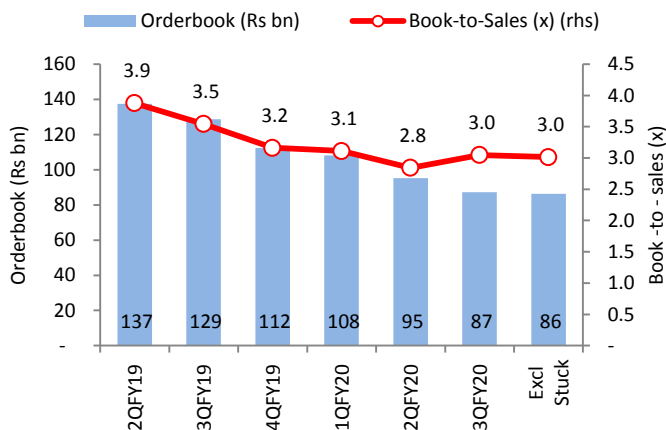
Long term projects = 26% (O&Ms)



Source: Companies, Phillip Capital India Research

Sadbhav Engineering (Orderbook = Rs 86bn; 3x book-to-sales)

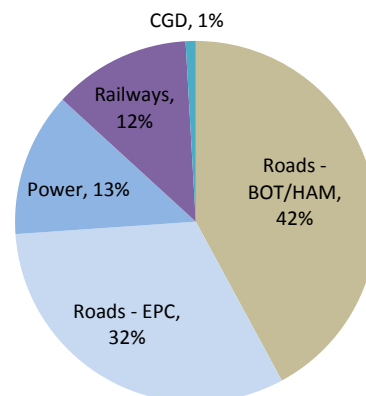
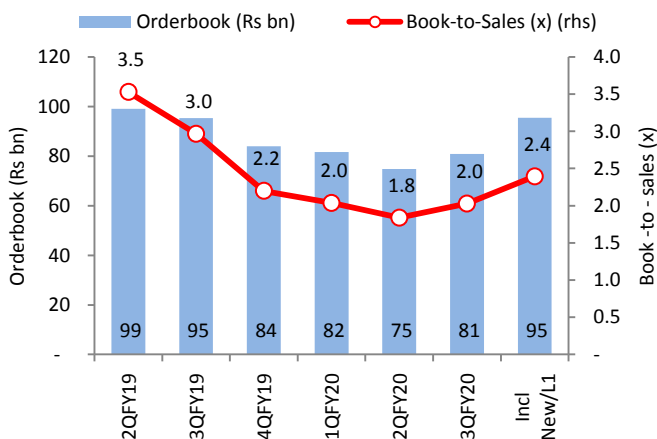
Yet to start = 10% (HAMs)



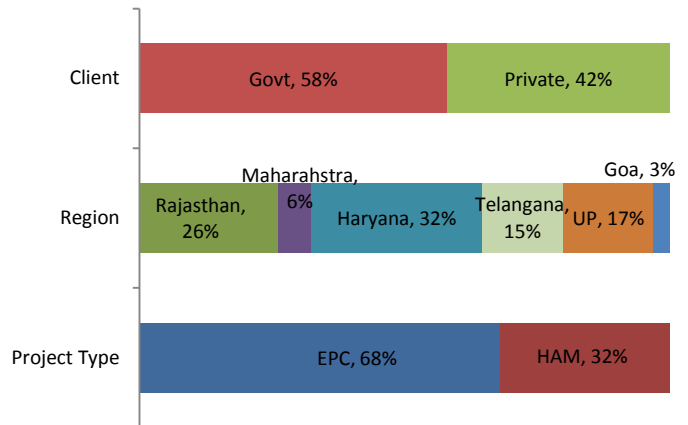
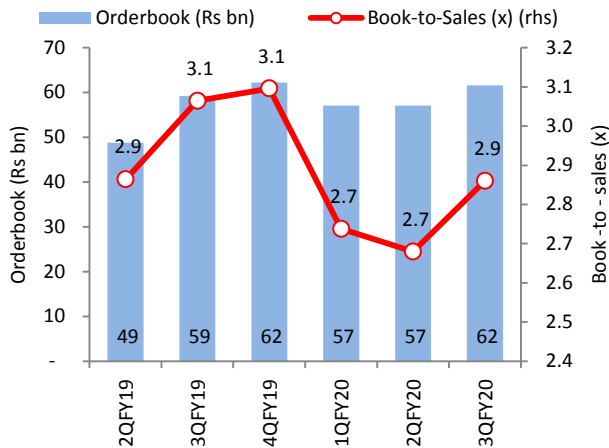
Source: Companies, Phillip Capital India Research

Ashoka Buildcon (Orderbook = Rs 95bn; 2.4x book-to-sales)

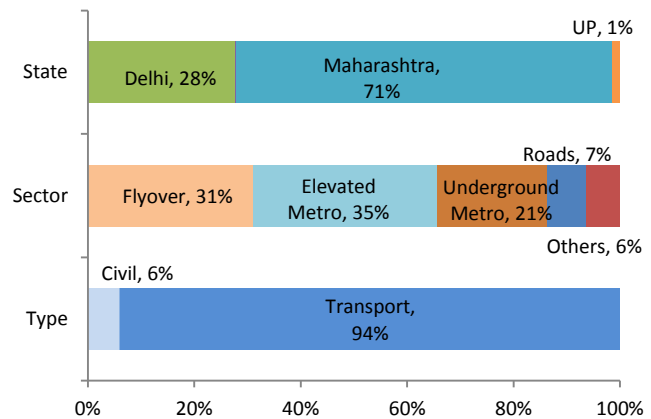
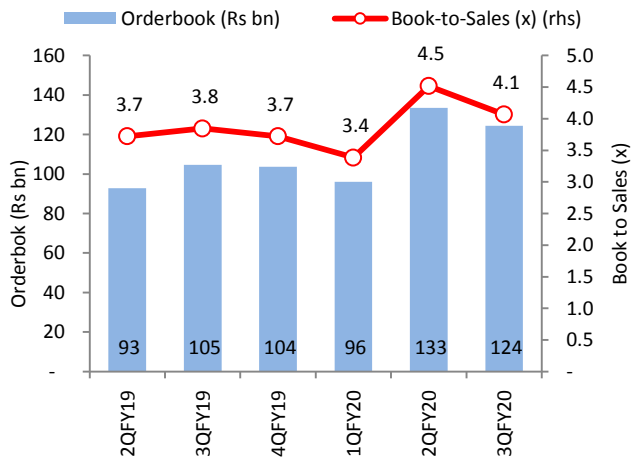
Yet to start = 15% (HAMs)



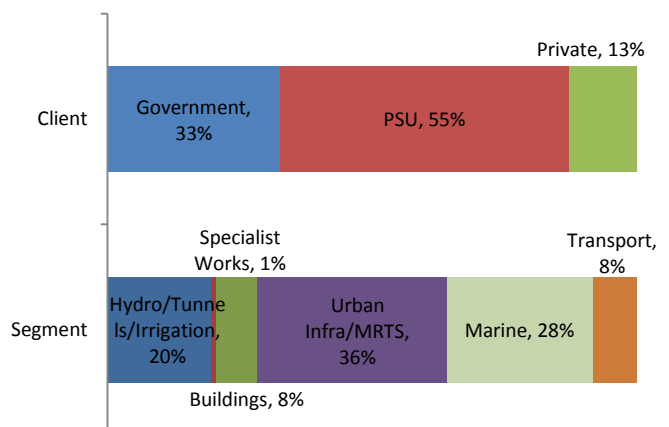
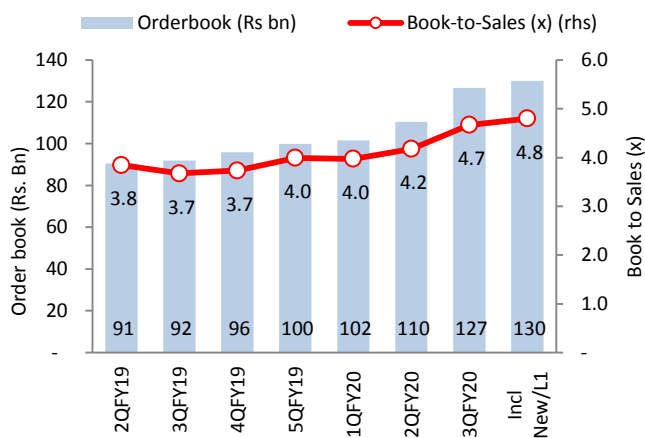
Source: Companies, Phillip Capital India Research (break-up for OB excl New orders)

HG Infra (Orderbook = Rs 63bn; 2.9x book-to-sales)
Slow moving = 27% (New HAMs)


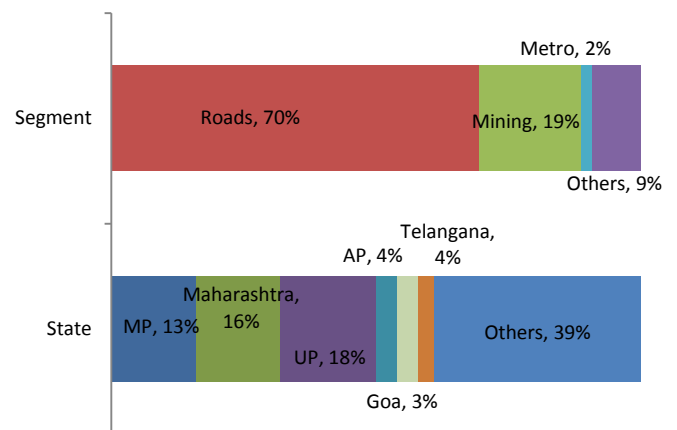
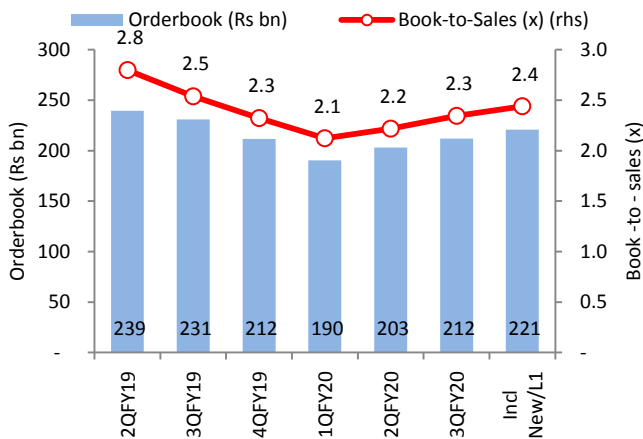
Source: Companies, Phillip Capital India Research

JKumar (Orderbook = Rs 124bn; 4.1x book-to-sales)
Slow moving < 4%


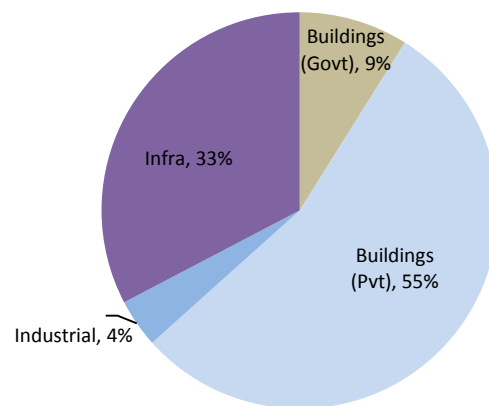
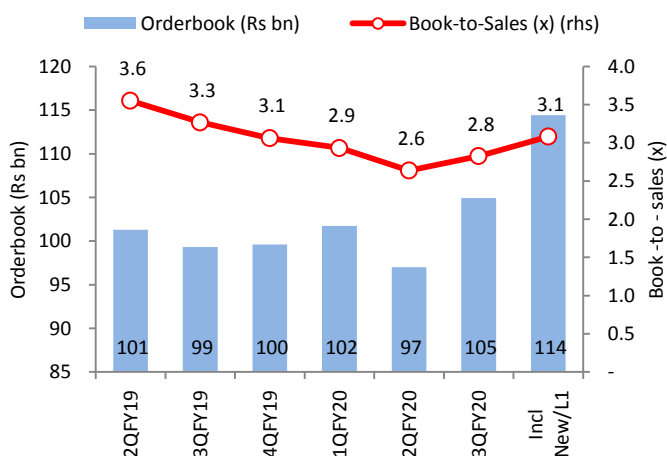
Source: Companies, Phillip Capital India Research (break-up for OB excl New orders)

ITD Cementation (Orderbook = Rs 130bn; 4.8x book-to-sales)
New orders/L1 = 3%


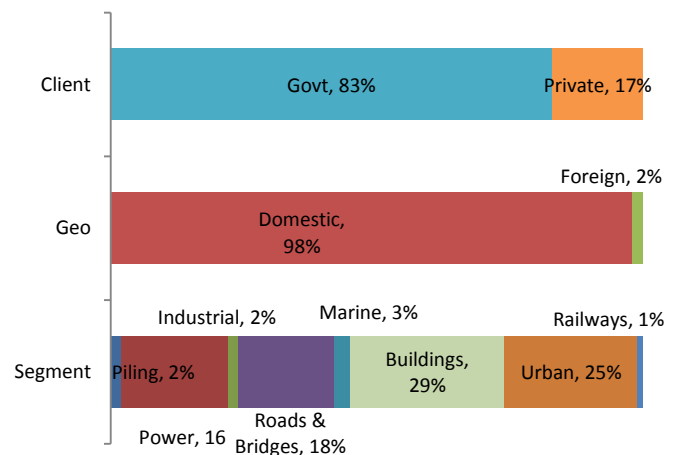
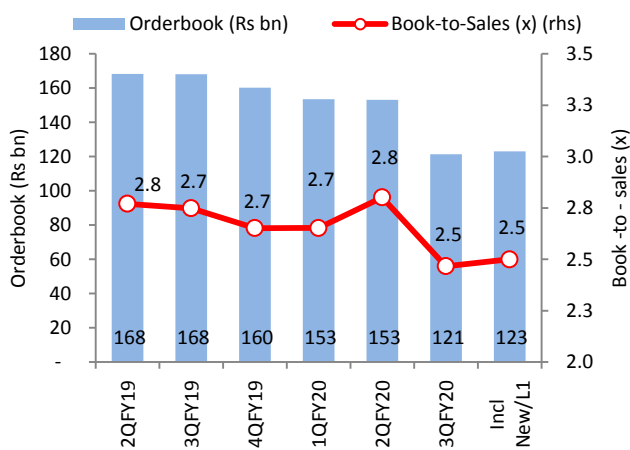
Source: Companies, Phillip Capital India Research (break-up for OB excl New orders)

Dilip Buildcon (Orderbook = Rs 221bn; 2.4x book-to-sales)
New orders/L1 = 3%


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

JMC Projects (Orderbook = Rs 114bn; 3.1x book-to-sales)
New orders/L1 = 8%


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

Simplex Infra (Orderbook = Rs 123bn; 2.5x book-to-sales)
New orders/L1 = 1%


Source: Companies, Phillip Capital India Research (break-up for OB as of Q2FY20)

Our Recommendations

Company	Mkt Cap		Rating	Price		EPC Target Multiple	Our Target EPC Valuation	BOT/Others Valuation	CMP implied FY22 PE (EPC)
	Rs bn	CMP		Target	% Upside				
IRB Infra	35.0	100	Buy	140	41%	6.0	104	36	3.6
Ashoka Buildcon	27.4	98	Buy	170	74%	8.0	127	43	3.5
Sadbhav Engg	15.3	89	NEUTRAL	110	24%	5.0	38	72	2.0
NCC	25.2	42	Buy	100	138%	9.0	100	-	3.8
KNR	40.3	287	Buy	365	27%	14.0	325	40	10.6
ITD Cementation	9.6	56	SELL	50	-11%	7.0	50	-	7.6
PNC Infra	51.4	200	Buy	300	50%	12.0	262	38	7.5
Ahluwalia	21.4	320	Buy	320	0%	12.0	320	-	11.9

Source: Company, PhillipCapital India Research

Valuations

Infrastructure sector – valuation table

Company	P/E		EV/EBITDA		ROE		D/E		P/BV	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
IRB Infra	4.7	-32.6	8.2	8.6	1.6	-1.4	2.3	2.4	0.5	0.5
Ashoka Buildcon	8.1	6.2	5.7	4.6	13.3	13.4	0.3	0.2	0.9	0.8
Sadbhav Engg	17.5	10.2	8.7	7.5	5.3	6.4	0.8	0.7	0.7	0.7
NCC	5.9	3.8	3.5	3.0	9.6	10.9	0.4	0.3	0.5	0.4
KNR	14.0	12.3	6.9	5.6	12.9	14.4	0.1	0.1	2.1	1.8
ITD Cementation	14.2	7.6	4.3	3.8	8.4	9.7	0.5	0.5	0.8	0.7
PNC Infra	10.7	9.2	6.5	5.5	15.6	15.5	0.1	0.1	1.7	1.4
Ahluwalia	23.8	11.9	7.2	6.0	15.6	15.6	0.0	0.0	2.2	1.9

Company	Revenue		EBITDA		PAT		EPS		Debt	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
IRB Infra	60,549	68,906	22,298	22,632	1,242	-1,074	3.5	-3.1	1,72,687	1,80,409
Ashoka Buildcon	48,432	55,697	6,054	6,962	3,845	4,443	13.7	15.8	7,683	5,683
Sadbhav Engg	30,222	34,755	3,627	4,171	1,181	1,498	6.9	8.7	16,873	16,873
NCC	1,10,077	1,25,488	12,934	14,745	5,295	6,605	8.8	11.0	21,033	20,033
KNR	30,776	36,932	5,540	6,648	2,522	3,273	17.9	23.3	1,641	1,641
ITD Cementation	34,551	40,079	3,455	4,008	984	1,262	5.7	7.3	6,323	6,823
PNC Infra	59,460	68,379	8,324	9,573	4,757	5,554	18.5	21.6	4,507	2,507
Ahluwalia	21,236	24,422	2,655	3,053	1,516	1,797	22.6	26.8	309	309

Company	Orderbook Rs bn	Book-to-Bill	Revenue growth		EBITDA Margin		Earnings Growth		WC Days	
			FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
IRB Infra	68	1.3	-14%	14%	37%	33%	-83%	-186%	-	-
Ashoka Buildcon	95	2.4	15%	15%	13%	13%	14%	16%	95	99
Sadbhav Engg	86	3.0	31%	15%	12%	12%	35%	27%	323	303
NCC	250	2.7	22%	14%	12%	12%	23%	25%	177	171
KNR	65	2.9	20%	20%	18%	18%	-13%	30%	87	94
ITD Cementation	130	4.8	20%	16%	10%	10%	45%	28%	106	111
PNC Infra	107	2.2	17%	15%	14%	14%	-1%	17%	117	119
Ahluwalia	76	4.6	20%	15%	13%	13%	68%	18%	129	137

Source: PhillipCapital India Research

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