

IPO Note: PNC Infratech Ltd.

Industry: Infrastructure

Recommendation: Avoid

Date: May 04, 2015

Issue Snapshot

Company Name	PNC Infratech Ltd.
Issue Size	Rs. 459 - 488 Crore
The Offer	Public issue of 12,921,708 Equity Shares (Comprising of fresh issue of 11,500,000 Equity Shares and Offer for Sale of 1,421,708 Equity Shares by Nylin Jacob Ballas India (FVCI) III LLC)
Issue Opens	May 08, 2015 to May 12, 2015
IPO Process	100% Book Building
Face Value	Rs. 10.00
Price Band	Rs. 355 to Rs. 378
Bid Lot	35 Equity Shares and in multiples of 35 Equity Shares thereafter.
IPO Grading	NA
Exchanges	NSE & BSE
BRLM	IDFC Securities Ltd, IDBI Securities Ltd
Registrar	Link Intime India Private Limited

Objects of the Offer

The objects of the Issue are:

- Funding working capital requirements;
- Investment in its subsidiary, PNCRHPL for part-financing the Raebareli-Jaunpur Project;
- Investment in capital equipment;
- Repayment/ prepayment of certain indebtedness; and
- Funding expenditure for general corporate purposes.

Issue Break up

Issue Size	Allocation	Equity Shares
QIB	50%	6435854
HNI	15%	1930756
RII	35%	4505098
Employee		50000
Total	100%	12921708

About the company

PNC Infratech is an Agra-based infrastructure construction company. Primarily working on EPC model on fixed sum turnkey basis, company has also forayed into BOT, DBFOT and OMT basis. It constructs major infrastructure projects such as highways, bridges, flyovers, power transmission lines, airport runways and is involved in development of industrial areas. However, majority of its BOT contracts are executed on basis of special purpose vehicles and joint ventures. Thus high reliance on successful follow-through of these JVs adds further pressure on the company and its operational performance. Some of the firm's major clients include the NHAI, Airports Authority of India, Delhi State Industrial Development Corporation, Military Engineering Services, Uttar Pradesh State Highway Authority, and Public Works Department of UP.

PNC Infratech has executed or is executing projects across various states in India covering Rajasthan, Punjab, Haryana, Uttarakhand, Uttar Pradesh, Delhi, Bihar, West Bengal, Assam, Madhya Pradesh, Maharashtra, Karnataka and Tamil Nadu. It has executed 42 major infrastructure projects on an EPC basis. At present the size of its order book is Rs 7,849.7 crore.

The company's financial are not very strong and it project delays pose a huge risk to efficient capital utilization and timely revenue realizations. It has a huge working capital requirement and maintaining consistency is posing a challenge with trade receivable collection cycle increasing from 60 days in 2010 to 109 days in 2014 on standalone basis.

PNC Infratech's consolidated revenue has increased from Rs. 12797.03 Crore in FY2012 to Rs. 13642.43 Crore in FY14 at a modest CAGR of 3%. During the same period both EBITDA and Net Profit have declined at a CAGR of 15% and 22% respectively owing to higher expense and higher working capital requirements. With a net debt of Rs. 1456.65 crore, the current debt to equity ratio stands at 1.16.

Given the weak set of financial numbers, the valuation is looking expensive compared to Industry average. On P/E multiple basis, at higher price brand the company is demanding a valuation of 23x of FY15 annualized earnings and EV/EBITDA of 12.5x of FY15 annualized EBITDA. Post dilution Price to Book Value is expected to be 1.54 with RoNW at 6.6%. Thus in our view, the IPO looks expensive and our suggestion to our investors is to stay away from this IPO subscription. Rather, investors can wait for the stock to correct and can buy it from the secondary market at reasonable valuation.

Financial Statement

Income Statement

(In Rs. Cr)	Mar-11	Mar-12	Mar-13	Mar-14	9MFY15
Total revenue	1,143.0	1,279.7	1,309.8	1,364.2	1,326.4
Total expenses	1,010.3	1,119.8	1,149.4	1,179.6	1,117.0
Depreciation	19.0	18.9	23.3	40.2	42.5
Finance costs	8.7	24.0	25.3	60.9	69.9
Tax expense	33.9	38.7	37.1	36.2	34.5
Adj. Profit	71.1	78.4	74.6	52.0	62.4

Asset Liability Statement

(In Rs. Cr)	Mar-11	Mar-12	Mar-13	Mar-14	9MFY15
Equity & Liabilities					
Net Worth	415.0	493.5	587.9	710.6	825.8
Long-term borrowings	14.7	112.4	345.7	743.1	1139.7
Other Non-current liabilities	20.2	52.7	37.1	106.1	152.6
Short-term borrowings	74.2	245.3	213.5	242.8	361.0
Other Current liabilities	70.6	138.3	237.7	218.8	293.6
Total Equity & Liabilities	594.7	1042.2	1421.9	2021.4	2772.6
Assets					
Fixed assets	118.4	303.5	739.8	1241.5	1921.8
Other Non-current assets	79.4	132.5	168.5	196.9	240.8
Total Current assets	396.9	606.2	513.6	583.1	610.0
Total Assets	594.7	1042.2	1422.0	2021.5	2772.6

Peer Comparison

Company	Face Value (Rs.)	Total Revenue (Rs. Mn.)	EPS (Rs.)	P/E (x)	RONW (%)	Nav per Share (Rs.)
PNC Infratech Ltd.	10	13,642	13.1	23.0	8.5	153.3
IRB Infrastructure Developers Ltd.	10	38,533	13.8	18.0	12.9	107.1
Ashoka Buildcon Ltd.	5	18,122	6.1	30.5	7.8	79.0
IL&FS Transportation Networks Ltd.	10	68,025	21.8	8.4	9.3	257.6
KNR Constructions Ltd.	10	9,122	21.5	20.4	9.9	217.2
J Kumar Infraprojects Ltd.	10	11,976	30.2	22.5	14.6	206.9

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