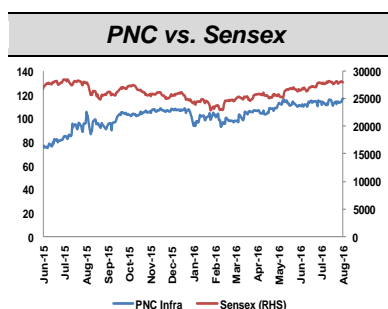


**Target Price ₹187**
**CMP ₹121**
**FY19E PE 8.0x**

Index Details	
Sensex	27,903
Nifty	8,607
BSE 100	8,854
Industry	Roads

Scrip Details	
Mkt Cap (₹cr)	3,069
BVPS (₹)	51.06
O/s Shares (Cr)	25.7
Av Vol (Lacs)	0.2
52 Week H/L	135/81.6
Div Yield (%)	0.25
FVPS (₹)	2

Shareholding Pattern	
Shareholders	%
Promoters	56.07
Public	43.93
Total	100.0



**PNC Infra Ltd (PNC)** is a north-based EPC/BOT contractor. In a short span of 15 years, it has catapulted its market share in the competitive EPC space without compromising on profitability and balance sheet strength. Strong order book visibility and execution track record, low gearing, lean working capital cycle and multiple operating efficiencies make PNC a strong play in the growing roads sector.

**We are optimistic about the company's prospects on the back of:**

- Strong order book visibility:** PNC has an order book of ~ Rs 5100 crores (2.5x FY16 EPC revenues). Further, PNC has won Rs 1374 crores worth of orders won from April 2016 till date, financial closures of which are expected to be achieved by October 2016. The company is on track to meet its targeted order book of ~ Rs 8000 crores by end FY17, signifying a robust 44% growth YoY.
- Strong execution track record:** PNC has a proven track record of early completion of projects in a sector marred by inordinate delays. It has the distinction of being among the first few to receive an early completion bonus from NHAI.
- Opportunities galore:** Ministry of Road Transport & Highways Ltd. (MoRTH) aims to award 25,000 kms of road projects in FY16-17. Given the initiatives taken by the government to ease the land acquisition process, grant higher powers to NHAI for fast-tracking execution, and introduction of the Hybrid Annuity Model (HAM), the roads sector is expected to witness a hockey-stick growth in the coming years. Given that 36% of the total projects that NHAI intends to award in FY17 are based in PNC-dominated states, PNC will be a direct beneficiary.

#### Key Financials (₹ in Cr)

Y/E Mar	Net Sales	EBITDA	Adj PAT	EPS (Rs)	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (x)	EV/EBITDA (x)
<b>2016</b>	2,395	407	229	8.9	-38.5	17.5	10.2	11.8	10.3
<b>2017E</b>	3,019	561	309	12.0	34.8	19.6	14.3	10.2	7.8
<b>2018E</b>	3,627	685	299	11.7	-3.2	16.4	16.4	10.6	6.1
<b>2019E</b>	4,013	804	393	15.3	31.5	18.1	19.1	8.0	4.8

- iv) **Multiple operating efficiencies:** PNC's four pronged strategy: a) conservative bidding b) operating in a core geographic cluster c) 'No subcontracting' policy in critical construction activity and d) a large equipment bank, have enabled the company expand its EBITDA margin 500 bps during FY13-FY16 to ~17%.

**We expect PNC's consolidated revenues to grow at a 3 year CAGR of 18.8% to Rs 4,013 crores in FY19E on the back of a CAGR of 17% in EPC revenues and a 25% CAGR in BOT revenues. We expect the EBITDA to grow at a 3 year CAGR of 25.4% to Rs 804 crores in FY19; EBITDA margin is expected to expand to 20.0% in FY19, up 300 bps from FY17 on the back of an increasing proportion of BOT revenues (from 16% in FY16 to ~20% in FY19E). PAT is expected to grow at a 3 year CAGR of 19.7% to Rs 393 crores by FY19.**

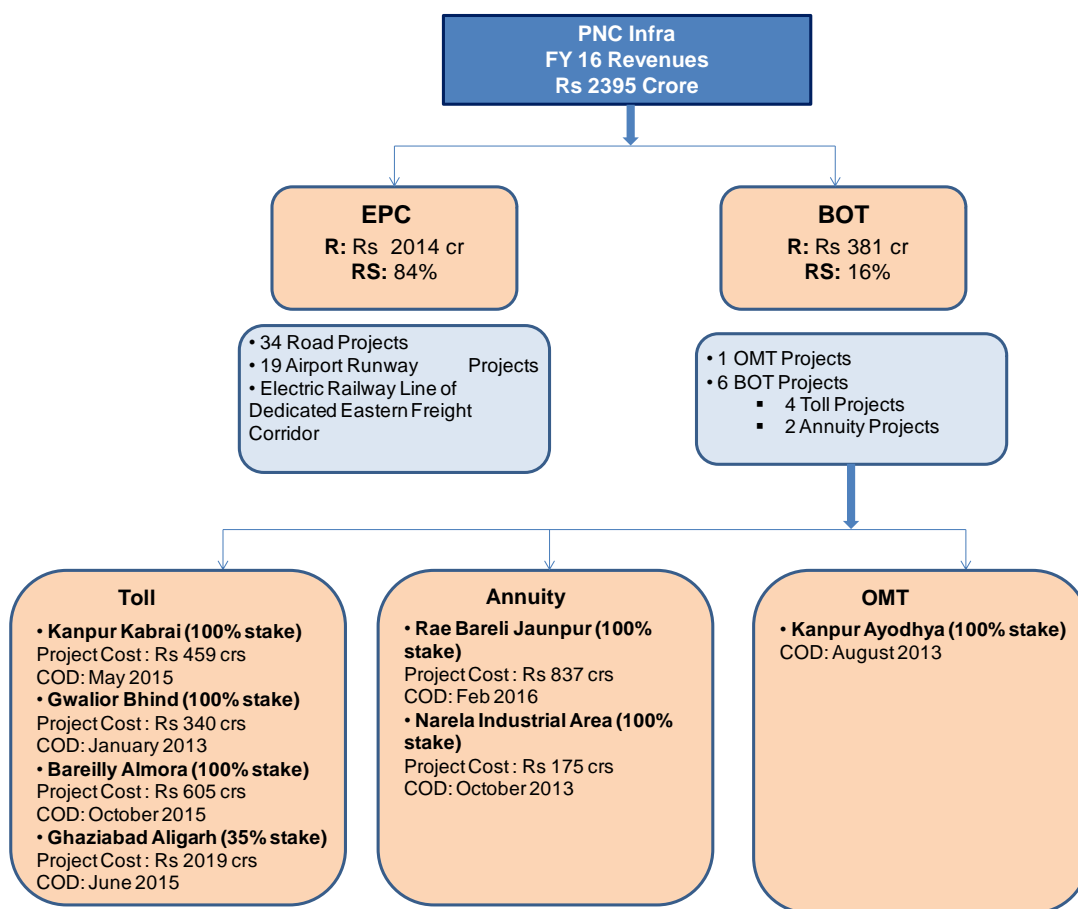
**We initiate coverage on PNC Infra as a BUY with a Price Objective of ₹187, representing a potential upside of 52% over a period of 18 months. We have arrived at our target price using the SOTP method. We have valued PNC's EPC business at a PE of 15x to FY19 EPS of Rs 10.6, translating to a value of Rs 159/share. We value the BOT projects at Rs 28/share, implying a P/B of 1.6x. On a consolidated basis, our target price implies a PE of 16x/12x on FY18/19 EPS estimate respectively.**

## ➤ Company Background

Incorporated in 1999, PNC Infratech (PNC) is a north based EPC/BOT contractor engaged in the construction of highways, runways, power transmission lines, industrial area development and other infrastructure activities. The company has a successful track record of executing several construction projects on time, across geographies. Around 75-80% of its order book is concentrated in the North.

PNC has a robust construction equipment bank which enables it to provide end-to-end infrastructure implementation solutions. PNC has an order book of ~ Rs 5100 crores (2.5x FY16 EPC revenues). Further, PNC has won Rs 1374 crores worth of orders from April 2016 till date, financial closures of which are expected to be achieved by October 2016. The company also executes projects on a BOT basis, OMT and other PPP formats. Currently, PNC has six operational BOT projects and one OMT project under its portfolio.

### PNC Infratech– Snapshot



Source: R= Revenues, RS: Revenue Share, PNC Infra, Ventura Research

### PNC Infra: Equipment Bank

Name of Machinery	OEM	Quantity
Heavy Duty Vehicles	Ashok Leyland, Tata Motors	537
Diesel Generators	Cummins/Jackson, Sudhir, Kirloskar, A/L, Greaves, Prakash, Escorts	212
Light Duty Vehicles and Attachments	Mahindra, Tata, Farm Trac, John Deere	179
Storage Tank	--	103
Passenger Vehicles	Toyota, Mercedes, Tata, Mahindra, BMW	81
Compressor	IR, Local	68
Soil Compactors	Escorts, Greaves, IR, Volvo, HAMM	65
Backhoe Loader	CAT, JCB	56
Wheel Loaders	CAT, HM, SEM, Liugong	51
Paver Finisher	IR, Apollo, Voegelé, Wirtgen, Multiquip	41
Concrete Mixture & Batching Plant	Schwing Stetters, Universal, Allen Buildwell	41
Motor Grader	CAT, Volvo, Sany	40
Tandem Rollers	IR, HAMM	35
Excavators	Komatsu, CAT, Volvo, Dozco	35
Tar Boiler/Bitumen Distributor	Local, Apollo, Allwin	29
Static Roller / Plate Compactors	Local	27
Hot Mix Plants	Apollo, Linnhoff, Speco, Shiv Shakti	19
Cranes	Alpha, CAT, Escorts	19
Broomer	Apollo, Allwin	16
Wet Mix Plants	Apollo, Everest, Shiv Shakti	15
Crusher Plants	Metso, Terex, Local	14
Kerb Paver	Apollo, Arrow, Roadtech	12
Concrete Pump and Placer	Schwing Stetter, Putz, Greaves, Surilla	11
Tower Light	Bellstone, IR, Akshay Patra, Prakash	10
PTR	HAMM, IR, Greaves	10

Source: PNC Infratech, Ventura Research

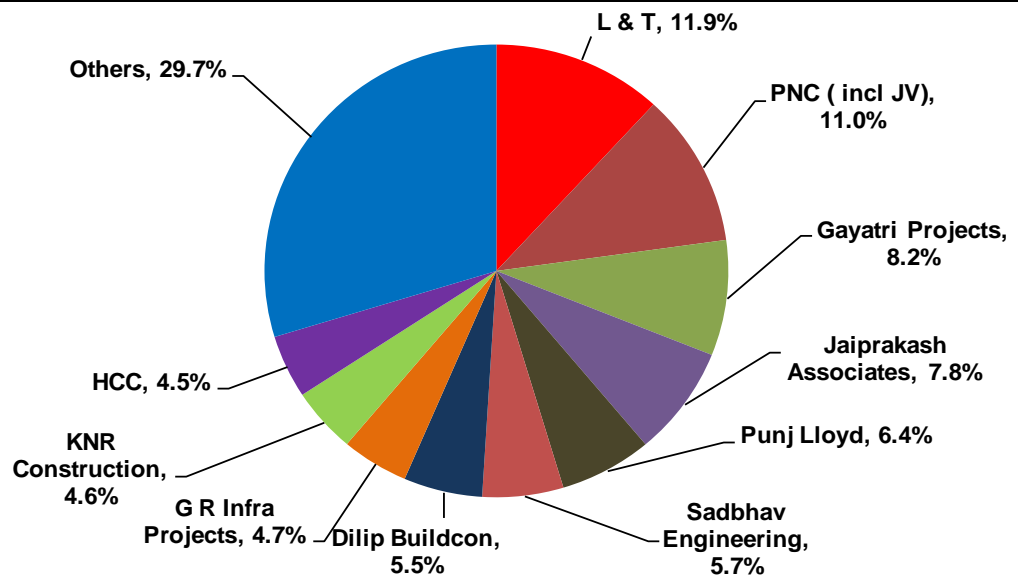
## ❖ Key Investment Highlights

### ➤ Established EPC player; market share next only to L&T

PNC has an established project execution track record across key infrastructure segments – roads, airport runways, dedicated freight corridors and industrial area development. In a span of 15 years, it has successfully executed 34 road EPC projects, 19 airport runway projects, and is developing/operating 6 BOT projects and 1 OMT road project.

In FY16, PNC enjoyed a 11% market share of the NHAI's Rs 48,100 crore EPC order book, second only to the infrastructure behemoth, L&T (12% share).

**In a short span; PNC has bagged a sizable portion of NHAI's EPC order book pie**



Source: PNC Infra, Ventura Research

### ➤ Multiple green shoots in the roads sector

The roads sector witnessed a period of lull during FY12-14 as players' interests in BOT projects dwindled. Project awards by MoRTH plummeted from 9900 kms in FY12 to 3621 kms in FY14; NHAI's award rate of projects fell from 17.7 km/day to 3.9 km per day.

The sharp fall in the order pipeline during FY13 was on account of:

- High upfront capital requirements: BOT projects entail high upfront capital requirements as the entire project cost is borne by the developer. During the period

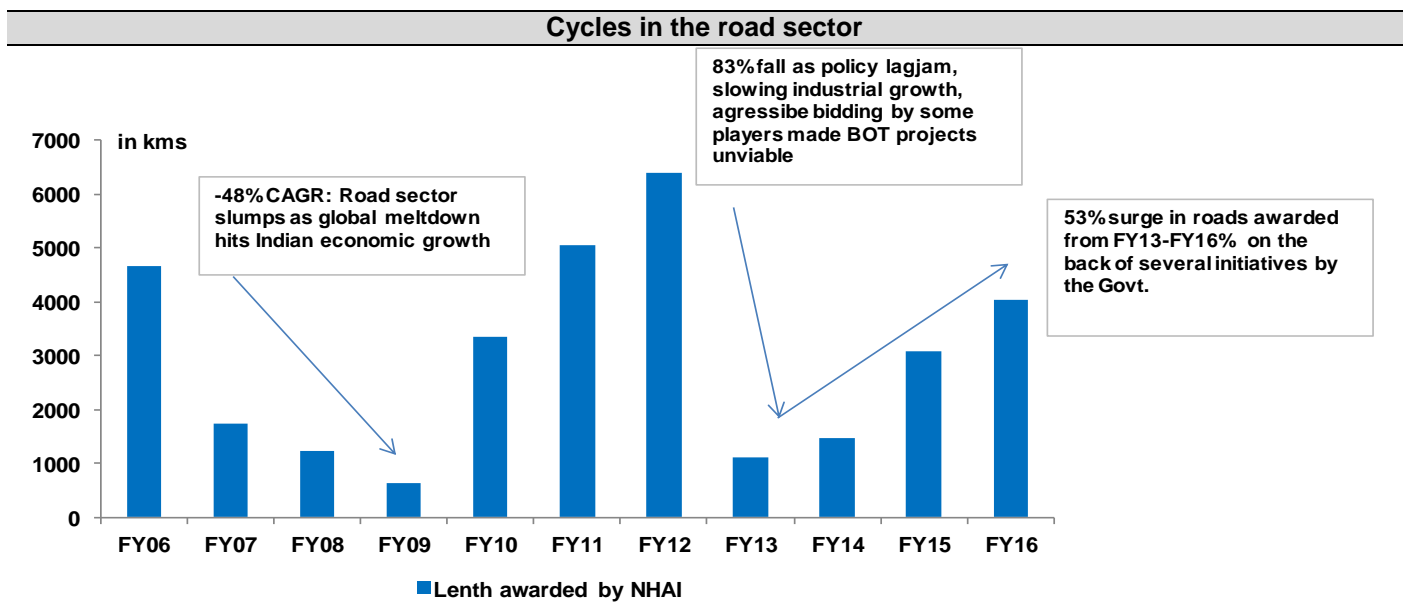
of economic slowdown, i.e. FY12-FY14, traffic came in far below expectations causing financial stress to BOT players. Stretched working capital cycle, high gearing levels, and aggressive bidding by few contractors, made BOT projects unviable. Players refrained from bidding for BOT projects, some even re-traced bids.

- **Stringent bank funding:** As the sector witnessed low toll collections, banks turned stringent in funding these projects. For instance, banks demanded land possession with the developer before lending to projects.

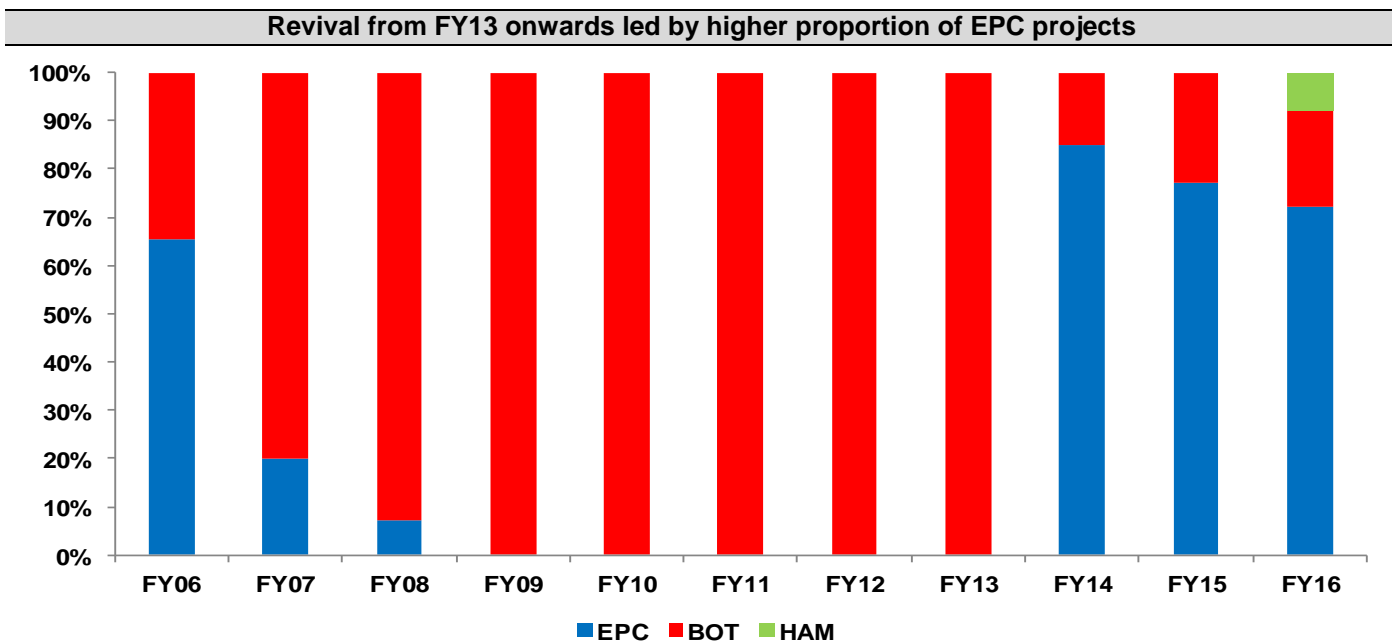
- **Procedural delays:** Land acquisition became a major hurdle owing to bureaucracy and multiple procedural formalities of different state governments. Environmental and forest clearances also met a similar fate causing inordinate delays in commissioning of the road projects leading to suppressed returns.

However, activity in the roads sector has picked up traction since FY14, thanks to:

- **Impetus to EPC projects:** From FY14 onwards, EPC projects, wherein the entire funding requirement is borne by the government were introduced to revive the interest of industry players saddled with high gearing levels. EPC, thus, became a preferred mode for road projects and the sector witnessed an uptick in project awards and execution.



Source: PNC Infra, Ventura Research



Source: PNC Infra, Ventura Research

• **Emphasis on faster execution:** With an aim to fast track project execution, the government has issued an ordinance to amend the New Land Acquisition act.

- ✓ This Act aims to ease the land acquisition process particularly for PPP projects. Also, the responsibility of land acquisition and other clearances is now entrusted to the NHAI alone. NHAI will not award any road project unless it has acquired 80% of the land for BOT projects and 90% of the land for EPC projects.
- ✓ Further, the government has delegated power to local registries to grant forest clearances, which can also be obtained online.
- ✓ The government is also mulling over granting additional powers to NHAI so as to do away with Cabinet approvals at each and every stage of the project. We believe these measures will go a long way in translating into robust growth for the roads sector in the coming years.

• **Launch of the Hybrid Annuity Model:** The EPC mode of project execution has an inherent risk – limited government finances. To strike a balance in funding requirements, the NHAI introduced the Hybrid Annuity Model in January 2016.

### Hybrid Annuity Model: Key features

#### Hybrid Annuity Model – Mix of EPC and BOT

<b>Funding</b>	The government will contribute 40% of the project cost in the first five years through annual payments (annuity); developer to raise remaining 60% through debt or equity Semi-annual annuity payments will be paid to the developer for the balance 60% of the project cost
<b>Disbursement</b>	Government's 40% contribution will be disbursed in accordance with the project completion milestones (24%, 40%, 60%, 75%, and 90%)
<b>Revenue Collection</b>	i) Responsibility of NHAI ii) The Government / NHAI will collect the toll and pay the developer annuity payments over 15 years along with interest thereon at bank rate + 3%. The developer will also receive O&M payments bi-annually along with annuity payments. iii) All project payments will be inflation indexed.
<b>FY16</b>	9 projects awarded worth Rs 83 bn
<b>Concession period</b>	15 years including construction period
<b>Advantage</b>	Developer: Lower financing burden with no traffic risk Government: Attractive enough to encourage PPP even by footing only 40% of funding requirement

Source: PNC Infra, Ventura Research

### PPP models comparison: Hybrid Annuity makes for a lucrative model

Types	Description	Revenue Stream	Development Risk	Financing Risk	Traffic Risk	Concession Period (NHAI)	Award Criteria
<b>BOT (Toll)</b>	Private party builds roads, undertakes O&M and collects toll	Toll	Concessionaire	Concessionaire	Concessionaire	~20-25 years	Highest revenue sharing bid
<b>BOT (Annuity)</b>	Private party builds roads, undertakes O&M and collects annuity	Annuity payment	Concessionaire	Concessionaire	Authority	~20-25 years	Lowest annuity
<b>Hybrid (Annuity)</b>	Private party builds roads, undertakes O&M and collects annuity, Construction Support 40% from Authority	Annuity payment	Concessionaire	Concessionaire (60%) Authority (40%)	Authority	15 years post construction	Lowest bid project cost and O&M cost
<b>EPC</b>	Private party builds roads (money spent by government)	Contract amount	Concessionaire	Authority	Authority	Not required	Lowest tariff requested
<b>OMT</b>	Private party collects toll and undertakes O&M	Toll	No development	Concessionaire	Concessionaire	~9 years	Highest % of toll revenues or highest premium per year
<b>Tolling</b>	Private party collects toll during the concession period and pays the estimated toll to the authority	Toll	No development	Concessionaire	Concessionaire	~1 years	Highest revenue sharing bid

Source: PNC Infra, Ventura Research, CRISIL Research



### • Key amendments in the Model Concession Agreements

In September 2015, the government approved key amendments in the model concession agreement for EPC/BOT projects. Two amendments in particular – There will be deemed termination if the appointed date is not within one year of the agreement date and – Back-ended payment of premiums payable by the developer to NHAI, have given the much needed boost to the sector.

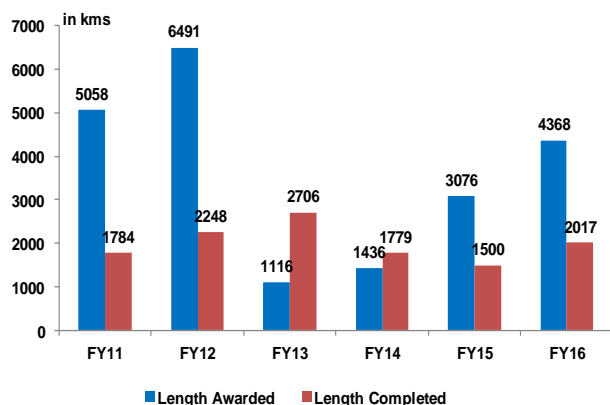
### Key Amendments to the Model Concession Agreement and its impact

Amendment	Previous Clause	Current Clause	Impact
Premium payments	To begin from Year One of the completion date (COD)	To begin from Year four of COD and increase by 3% till the 10th year, and 8% per year until the end of the concession period	Will help developers and lenders reduce cash flow mismatches
Equity contribution by authority	Equity support should not be more than the equity of the developer nor can it exceed 20% of the project cost	Equity support (including O&M) by authority shall not be more than two times the promoter's equity, and cannot exceed 40% of the project cost	Facilitates higher equity support by authority, especially since most BOT projects awarded in Q1 of current fiscal are on grant
Revenue shortfall loan	Revenue shortfall loan available for political events, default impacting cash flows	Revenue shortfall loan available additionally for judicial pronouncements impacting cash flows	Will improve the scope to avail of revenue shortfall loan
Termination of projects	No provision for deemed termination	There will be deemed termination if the appointed date is not within one year of the agreement date	Will reduce the number of projects stuck due to of lack of progress in work
Maintenance obligations	No provision for higher traffic beyond the capability designed. If maintenance obligations are not met, a penalty of 0.5% of the average daily toll, and 0.1% of the cost of repair for the balance concession period (whichever is higher), will be levied.	Added obligations if traffic is higher than designed capacity. If the concessionaire fails to repair or rectify defects then the authority will levy penalty for each day of delay at 5% of the average daily toll and 1% of the cost of repair, whichever is higher, for the balance concession period.	Will fix responsibilities for maintenance on developer
Toll fee notifications	If the toll collected or displayed is in excess of notified fees, the surplus needs to be deposited along with penalty equal to 25% of the excess amount	If the toll collected or displayed is in excess of notified fees, the excess amount, along with penalty equal to 200% of such excess amount, will have to be deposited	Will prevent misuse of toll collection rights
Data on toll and traffic collection	Not present	Install appropriate mechanism to ensure real-time traffic data count and corresponding revenue collection	Will enhance transparency and lender comfort because of better traffic estimation
Refinancing obligations	Not present	NHAI shall permit and enable concessionaire to secure refinancing in whole or in part	Will enhance lender comfort

Source: CRISIL Research, Ventura Research

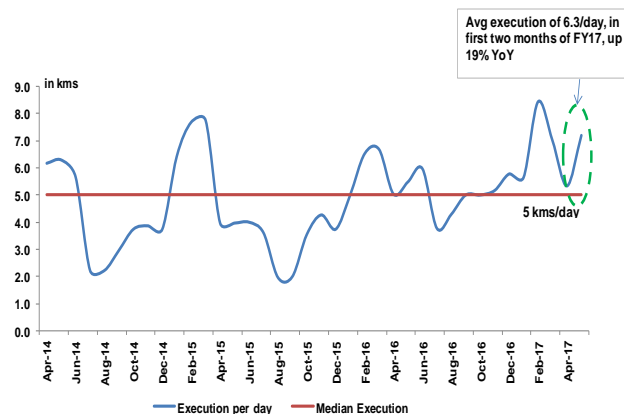
The above measures, coupled with higher budgetary allocations for the roads sector, give us confidence that MoRTH's ambitious target of constructing 15,000 kms of roads in FY17, up 50% YoY, could well be within reach. In fact, NHAI has already acquired 60% of the land for projects that it intends to award in FY17. Further, traction is already visible in this sector. According to CMIE's CapEx database, 21 new road projects stretching 364 kms worth Rs 66 bn, were announced in the June 2016 quarter.

### Increased pace of project awards...



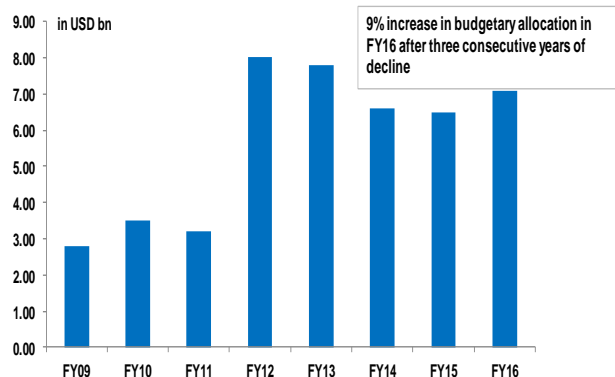
Source: PNC Infra, Ventura Research, NHA

### ...coupled with faster execution



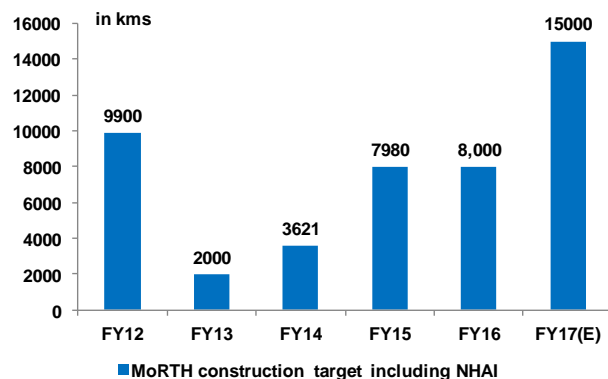
Source: PNC Infra, Ventura Research, NHA

### ...and higher allocation for roads in FY16



Source: PNC Infra, Ventura Research, NHA

### ...may help meet MoRTH's ambitious target



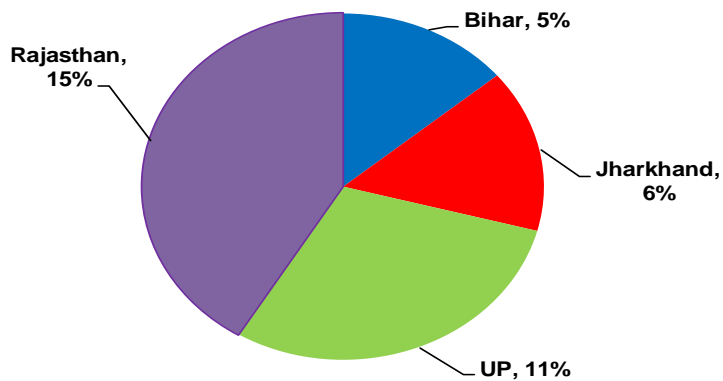
Source: PNC Infra, Ventura Research, NHA

To sum, India's road sector could witness hockey stick growth in the coming two years against the backdrop of government initiatives and an improvement in the macro economy, which will boost passenger and freight traffic.

### ➤ Robust pipeline of road projects in PNC dominated states

PNC has executed ~75-80% of its road projects in UP, Jharkhand, Bihar and Rajasthan, as project execution close to the area of core operations helps save costs due to logistical synergies and faster execution through in-depth understanding of local conditions. These states have a robust pipeline of road EPC projects over 2016-17 – 4 states alone account for 36% of the 6631 kms of road projects that NHA intends to award in FY16.

**PNC's dominated states account for 36% of the total road length to be awarded in FY17**



Source: PNC Infra, Ventura Research, NHAI

**Details of Projects lined up in PNC's states**

State	Project	Length (kms)	Mode	Cost ( Rs crs)	Date of Award
<b>Bihar</b>	Maheshkut-Saharsa-Purnea ( PKG-1)	90	EPC		Mar-17
	Maheshkut-Saharsa-Purnea ( PKG-2)	88	EPC		Mar-17
	Majholi (Junction with NH-57) – Charout	64		524	Mar-17
	(Junction with NH-104)				
	Ganga bridge – Mokama	8	HA	977	Dec-16
	Sahibganj-Manihari Section of NH-131A & NH-133B (including bridge on river Ganga)	22	HA	1905	Jun-16
	Narenpur-Purnea Section	49	HA	1104	Jun-16
	Kishanganj Bypass	15		241	Mar-17
<b>Total</b>		<b>336</b>			
<b>Jharkhand</b>	Barhi-Hazaribagh	41	EPC	324	Jun-16
	Barhi-Rajauli	47	EPC		Mar-17
	Govindpur(Raigunj)-Chas-WB Border	57	EPC	458	Jun-16
	Aurangabad-Bihar/Jharkhand Border	70	HA	1000	Mar-17
	Bihar/Jharkhand Border-Barwa Adda	152	HA	2800	Mar-17
<b>Total</b>		<b>367</b>			
<b>Rajasthan</b>	Bar-Bilara-Jodhpur	110	EPC	483	May-16
	Tonk-Swaimadhopur	67	EPC	318	Jun-16
	Salasar-Nagaur Section	120	HA	557	Jul-16
	Manoharpur-Dausa	62	EPC	238	Jul-16
	Dausa-Lalsot-Kothoon Section	83	HA	615	Jul-16
	KUA Package 1 (Kishangarh-Vijaynagar)	90	Toll	1032	Jul-16
	KUA Package-2(Vijaynagar-end of Chittorgarh bypass)	125	Toll	1240	Jul-16
	KUA Package-3(End of Chittorgarh bypass- Udaipur)	95	Toll	1100	Jul-16
	KUA Package-4(Debri- Kaya - Udaipur Bypass)	24	HA	626	Jun-16
	KUA Package-5(End of Udaipur bypass-km 333.585-447.385 in Rajasthan & Gujrat State)	114	Toll	1244	Aug-16
	KUA Package-6(Km 447.385-540.595) in Gujarat	93	Toll	1077	Aug-16
	KUA Package-7(km.540.595-555.48 in Gujarat	15	EPC		Aug-16
<b>Total</b>		<b>997</b>			
<b>Uttar Pradesh</b>	Aligarh-Kanpur (PKG-1)	150.0	EPC		Mar-17
	Varanasi Ring road(Phase II)	43.0	EPC		Mar-17
	Varanasi-Hanumanha	125.0	EPC		Mar-17
	4 Laning of Lucknow-Sultanpur	127.4	HA	1661.9	Jun-16
	Chakeri - Allahabad	131.0	Toll		Mar-17
	Handia -Varanasi	72.4	HA		Mar-17
	DME:Pkg II – UP Border to Dasna	19.3	HA	1451	Jun-16
	DME Pkg IV – New Alignment of DME from Dasna to Meerut	46.1	HA	2550	Oct-16
<b>Total</b>		<b>714.1</b>			

Source: NHAI

### Early completion bonus – an additional positive

With strong expertise in order execution in these states, PNC is well poised to capitalize on the order pipeline. Also, operating in a cluster gives PNC a clear upper hand in project execution. For instance:

- PNC completed the construction of the Rae Bareilly-Jaunpur stretch 3 months ahead of time, which made it eligible to receive an early completion bonus of ~ Rs 33 crores in December 2016.
- It has received a bonus from NHAI for early completion of the Agra-Gwalior section of NH3 in UP.

### ➤ Presence in key infra segments boosts growth prospects

PNC is engaged in the construction of highways, airport runways, industrial areas and railway lines as a part of the Dedicated Freight Corridor (DFC).

### EPC order book of 2.5x FY16 revenues

PNC has an order book of ~ Rs 5100 crores (2.5x FY16 EPC revenues). Further, it has won Rs 1374 crores worth of orders from April 2016 till date, financial closures of which are expected to be achieved by October 2016. The company is on track to meet its targeted order book of ~ Rs 8000 crores by end FY17, signifying a robust 44% growth YoY. We expect the order book to touch Rs 9600 crores by FY19E on the back of the following:

- Apart from the tremendous opportunity in roads, PNC also has the expertise to execute **airport runway projects**:

In the 2016 Union Budget, the government stated that it is planning to revive 160 airstrips, each of which would cost Rs 50-100 crores. Further, the government also plans to construct 20 greenfield airports by 2025 in a bid to boost air connectivity. While, this target may seem ambitious, even a single greenfield airport can translate into a significant opportunity for contractors like PNC. Of the 20 airports planned, 2 are in UP and 1 is in Rajasthan.

### Completed and Ongoing Airport runway projects of PNC

I No.	Name of Projects	Employer	Location
<b>Completed</b>			
1	Strengthening of the main runway 19L/01R and providing CAT-II lighting at 19L approach at the NSCBI Airport, Kolkata.	Airports Authority of India	West Bengal
2	Up gradation of airstrips for operation of Boeing 737 type aircrafts at the Saifai Etawah.	RITES Ltd.	Uttar Pradesh
3	Resurfacing of existing runway and shoulders and area drainage works at Air Force Station, Yelahanka, Near Bangalore	Military Engineer Services	Karnataka
4	Resurfacing of runway, taxiway at the civil airdrome, Raipur, Chhattisgarh	RITES Ltd.	Chhattisgarh
5	Resurfacing of hard standing at Mehra Chowk at 402 AFS Chakeri.	Military Engineer Services	Uttar Pradesh
6	Strengthening of Runways and Construction of allied facilities at Kasia (U.P.)	RITES Ltd.	Uttar Pradesh
7	Extension and up gradation of the existing Dehradun Airport for the operation of AB-320/B-737-800 type aircrafts.	Airports Authority of India	Uttarakhand
8	Extension of the pavement and allied works services (Group B) at the Air Force Stations, Bidar, Karnataka.	Military Engineer Services	Karnataka
9	Construction of a runway and allied works at Madurai Airport.	Airports Authority of India	Tamil Nadu
10	Construction of the main runway and rapid exit taxi track at the Air Force Station, Pune, Maharashtra	Military Engineer Services	Maharashtra
11	Extension and strengthening of the runway and construction of the new apron and isolation bay and associated works at the Devi Ahilyabai Holkar Airport, Indore, Madhya Pradesh	Airports Authority of India	Madhya Pradesh
12	Construction of a runway, taxi track and civil Airport at Meerut, Airstrip, UP	RITES Ltd	Uttar Pradesh
13	Expansion and strengthening of apron and construction of new taxiway and associated works at the Lucknow Airport, UP.	Airports Authority of India	Uttar Pradesh
14	Widening, extending and resurfacing of parallel taxi track and associated works at Air Force Station, Maharajpur, Gwalior, MP.	Military Engineer Services	Madhya Pradesh
15	Expansion of Apron at Civil Enclave at Jorhat Airport, Assam	Airport Authority of India	Assam
16	Work services for resurfacing of runway, extension of runway and allied works at Air Force Station Jorhat, Assam	Military Engineering Services	Assam
17	Extension of Runways, Parallel Taxi Track, Boundary wall and Allied works at Birsai Airport, Gondia, Maharashtra	Airport Authority of India	Maharashtra
<b>On-going</b>			
1	Resurfacing of runway and allied works at Air Force Station Gorakhpur, U.P	Military Engineer Services	Uttar Pradesh
2	Resurfacing of runway and allied works at Air Force Station, Panagarh, West Bengal.	Military Engineering Services	West Bengal
3	Extension and resurfacing of runway at Air Force Station, near Lucknow	Military Engineering Services	Uttar Pradesh

Source: PNC Infra

- **Dedicated freight corridor** – another high-potential segment

In 2013, PNC bagged an EPC contract (double track electrified railway line on Mughalsarai-Sonnagar section of the Dedicated Eastern Freight Corridor) worth ~ Rs 150 crore. In the railway budget 2016-17, the railway minister proposed to develop three new freight corridors: Delhi-Chennai (North-South), Kharagpur-Mumbai (East-West) and Kharagpur-Vijayawada (Eastern Coast) over the next eight years. In value terms, these three new freight corridors will entail an investment of Rs 3.3 lakh crore, with about Rs 10,000 crores of contract bids to be floated in FY17 alone.

Given the potential in the roads, airport runways and DFC segments, we expect PNC's EPC revenues to grow at a healthy 3-year CAGR of 17% to Rs 3227 crores by FY19.

#### Key EPC projects under construction

Key EPC Projects under construction	Rs ( crs)	% share of EPC order book
Nagina-Kashipur	1156	23%
Varanasi-Gorakhpur	869	17%
Aligarh-Moradabad	645	13%
Agra-Firozabad	523	10%
Bhojpur-Buxar	477	9%
<b>Top 5 projects</b>	<b>3670</b>	<b>72%</b>

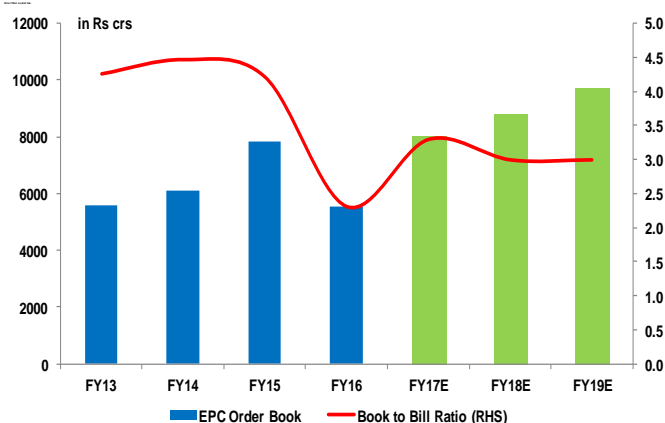
Source: PNC Infra, Ventura Research

#### Orders not included in order book

Project	Rs ( crs)	Type	State	Status
LOA for 4 laning / 2 laning of Dausa-Lalsot-Kauthun section of NH-11 A (Extension)	881	HAM	Rajasthan	LOA
4 laning of Etah to Kasganj road	233	EPC	UP	LOA
Extension and resurfacing of Runway at Air Force Station Bakshi Ka Talab, Lucknow	140	EPC	UP	LOA
Road projects for UPPWD	120	EPC	UP	L1
<b>Total</b>	<b>1374</b>			

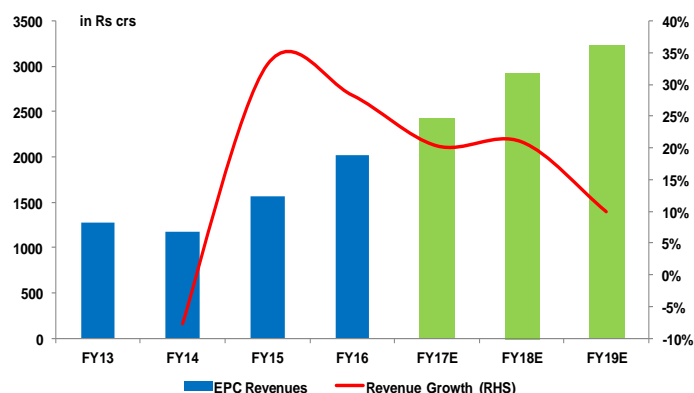
Source: PNC Infra, Ventura Research

#### Order book set to touch Rs 100 bn by FY19



Source: PNC Infra, Ventura Research

#### EPC revenues set to maintain steady growth



Source: PNC Infra, Ventura Research

### **Robust BOT Portfolio**

PNC has a robust BOT portfolio of seven projects, 4 of which are BOT toll road projects, 2 are BOT Annuity projects and 1 is an OMT project. PNC has met the entire equity requirement of Rs 4.6 bn for these projects; hence there is no further requirement for equity infusion. Five of these projects are based in UP, 1 is in MP while 1 is in Delhi. Further, the road stretches cater to a mix of commercial and tourist traffic, thereby reducing dependency on macro economic conditions. Of the seven, Rae Bareilly-Jaunpur is expected to start operations from FY17. We expect total toll revenues to increase at a 3 year CAGR of 25% and reach Rs 756 crores by FY19. Majority of the toll projects have recently commissioned operations and are likely to pick-up traffic in the coming years.

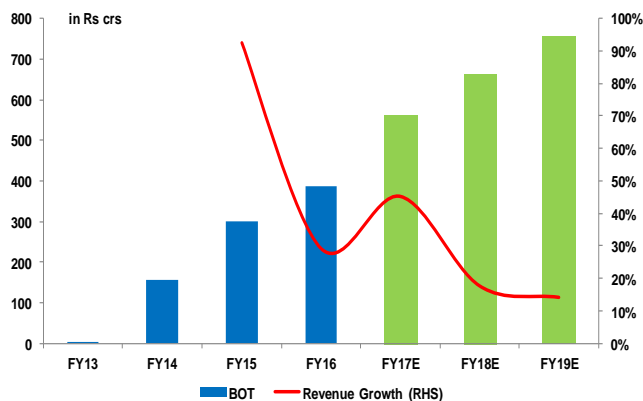


**PNC's BOT Portfolio**

Project Name	Kanpur Kabrai	Gwalior Bhind	Bareilly Almora	Rae Bareli Jaunpur	Narela Industrial Area	Ghaziabad Aligarh	Kanpur Ayodhya
Shareholding	100.0%	100.0%	100.0%	100.0%	100.0%	35.0%	100.0%
State	UP	MP	UP	UP	Delhi	UP	UP
Lanes / Kms	2 / 123	2 / 107.68	4 / 54	2 / 166.4	NA / 33	4 / 125	4 / 217
Stretch	NH-86	NH-92	SH-37	NH-231	NA	NH-91	NH-28
Authority	NHAI	MPRDC	UPSHA	NHAI	DSIIDC	NHAI	NHAI
Type	BOT	BOT	BOT	BOT	BOT	BOT	OMT
Revenue	Toll	Toll	Toll	Annuity	Annuity	Toll	OMT
JV Partners	-	-	-	-	-	SREI, Galfar	-
Concession Agreement Signing Date	Mar-11	Dec-10	Aug-11	Nov-12	Jul-11	May-10	Apr-13
Concession Expiry date	Mar-23	Dec-24	Aug-36	Nov-29	Jul-26	May-34	Apr-22
Concession Period (Years)	12	14	25	17	15	24	9
Construction Start Date	Jan-13	Jun-11	Mar-13	Jun-14	Dec-11	Feb-11	
Construction End Date	Jul-14	Jun-13	Sep-15	Jun-16	Dec-13	Aug-13	
Project Status	Operational	Operational	Operational	Operational	Operational	Operational	Operational
COD / PCOD	May-15	Jan-13	Oct-15	Feb-16	Oct-13	Jun-15	Aug-13
TPC (Rs. Crores)	459	340	605	837	175	2,019	NIL
Total Debt (Rs. Crores)	268	235	460	698	140	1,514	NIL
Equity (Rs. Crores) - Total	68	78	75	140	35	194	0.5
Equity (Rs. Crores) - PNC Share	68	78	460	140	35	68	0.5
Total Grant (Rs. Crores)	123	27	70	0	0	311	0
FY17 Expected Revenues ( Rs crs)	61	57	28	107	38	204	273
Taffic Type	Stretch mainly used for transportation of construction materials; traffic skewed towards commercial vehicles	Largely tourist traffic	In vicinity of several industrial corridors of Uttarakhand drives heavy commercial traffic on this stretch	Heavy commercial traffic	The Delhi State Industrial aand Infrastructure Development Corporation (DSIIDC) has completed the first phase of The Narela Indutrial Area development of 1800 plots; PNC to receive annuity of Rs 21.5 crs and also is entitled to collect maintence chargers from owners and users of the complex; total estimated annuity is ~ Rs 38 crs	Mix of commercial traffic ( largely towards steel units in Ghaziabad) and tourist traffic	Traffic driven by religious tourism

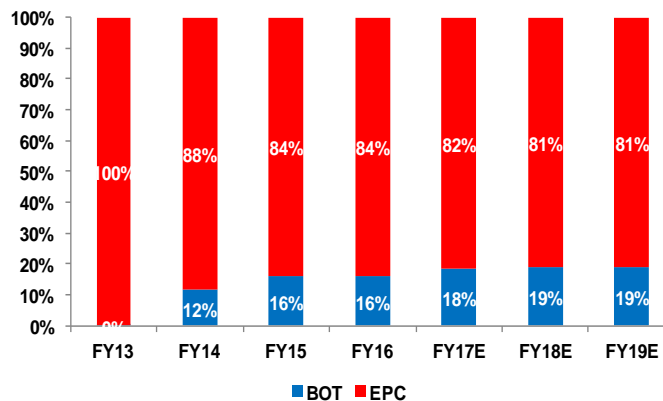
Source: PNC Infra, Ventura Research

### BOT revenues to grow at a steady pace



Source: PNC Infra, Ventura Research

### EPC revenues will continue to dominate



Source: PNC Infra, Ventura Research

### ➤ EBITDA margin expansion to continue

PNC has been able to expand its EBITDA margin by nearly 500 bps in the past 3 years – from 12.8% in FY13 to 17% in FY16. This expansion in operating margins has been possible on account of:

- i) **Conservative bids:** An analysis of the latest projects awarded reveals that PNC's bids are 7% higher than the works cost, which is the highest premium rate amongst peers. This translates to an ample margin cushion and gives us confidence in the management's ability and intention to protect the firm's and shareholder's returns.

**PNC's conservative bidding strategy provides a cushion for margins**

Bidder	EPC Work Cost (Rs crs)	Awarded cost (Rs crs)	% Bidding above/below benchmark cost
<b>PNC Infratech</b>	<b>2816</b>	<b>3019</b>	<b>7.2%</b>
G.R.Infra	1687	1807.1	7.1%
Dilip Buildcon	571	597	4.6%
Ashoka Buildcon	1423	1480.9	4.0%
KNR Construction	1558	1606.1	3.1%
Gayatri Projects	3965	3993	0.7%
J Kumar Infra	1629	1633.7	0.3%
Oriental Infra	665	658.9	-0.8%
Sadbhav Engineers	2487	2452.5	-1.4%
JP Associates	789	747	-5.3%
L&T	2439	2245	-8.0%
M.G.Contractors	239	212.2	-11.3%
Varaha Infra	273	229.3	-16.0%
<b>TOTAL</b>	<b>20541</b>	<b>20682</b>	<b>0.7%</b>

Cumulative of projects awarded in FY16

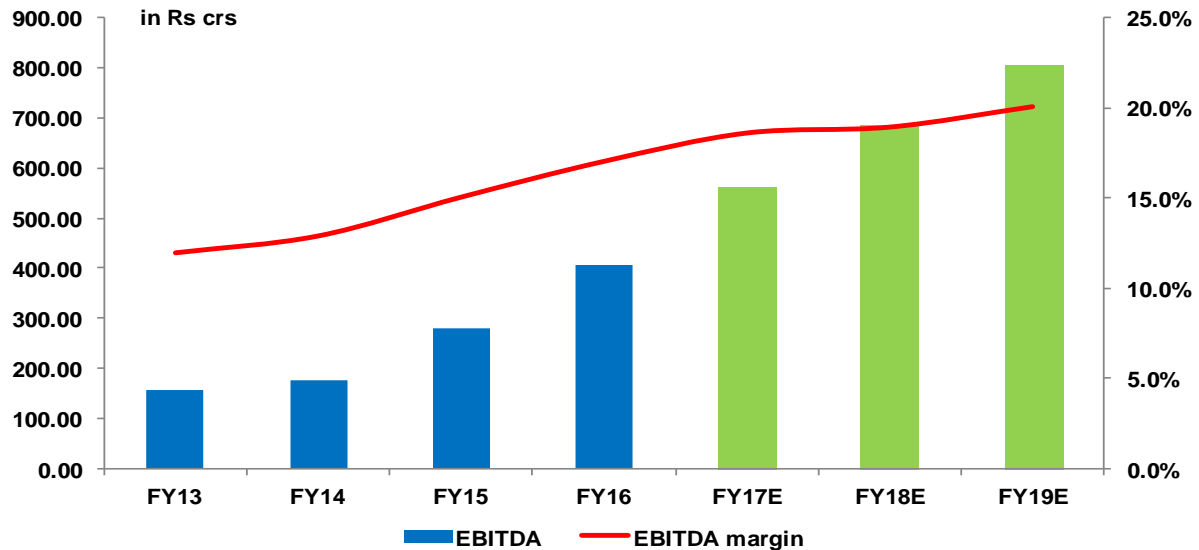
Source: Ventura Research, Industry Reports

**ii) 'No-subcontracting' policy:** PNC does not sub-contract critical construction activity, thereby ensuring stringent control on quality and savings in costs.

**iii) Own Equipment bank:** PNC has a large equipment bank which caters to majority of its construction requirements. This asset translates into savings in lease rental costs. It plans to spend ~Rs 80 crores in FY17 for the purchase of a cement concrete mixture as the government is pushing for concretization of roads.

Going forward, we expect EBITDA margins to further expand to ~20% by FY19 as the contribution of high margin BOT projects (EBITDA margins in the range of 80-85% as compared to 13-13.5% in EPC) is expected to increase from 16% in FY16 to 19% by FY19.

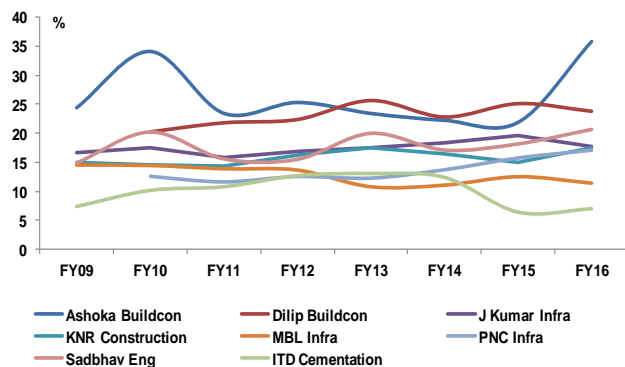
### EBITDA margins to further expand



Source: PNC Infra, Ventura Research

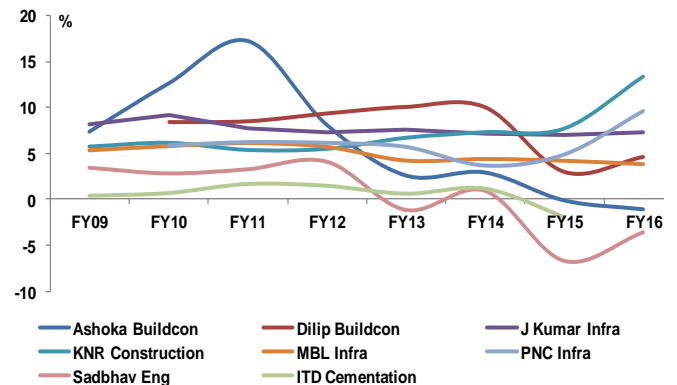
### Peer Analysis: PNC scores high on balance sheet strength and RoE

#### EBITDA margin in line with peers...



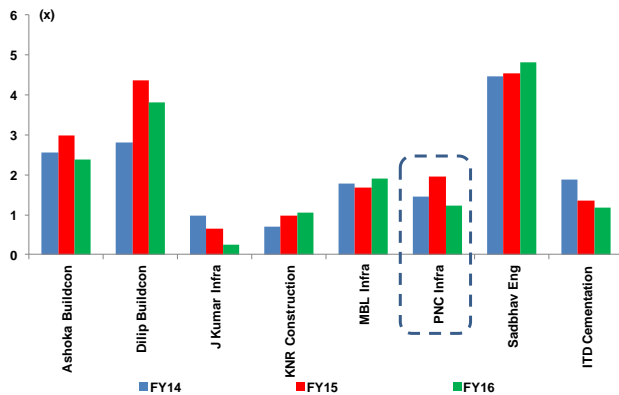
Source: PNC Infra, Ventura Research

#### ...but PAT margin superior to peers due to...



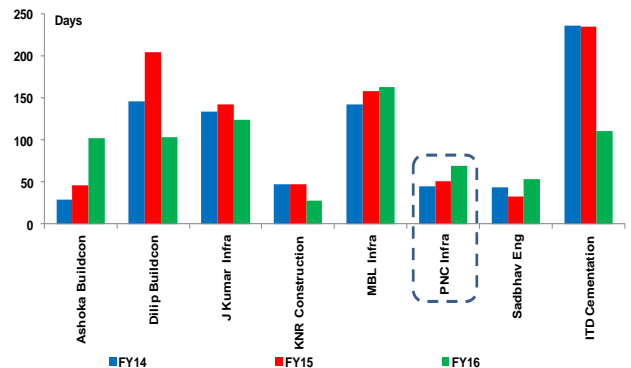
Source: PNC Infra, Ventura Research

### Low gearing



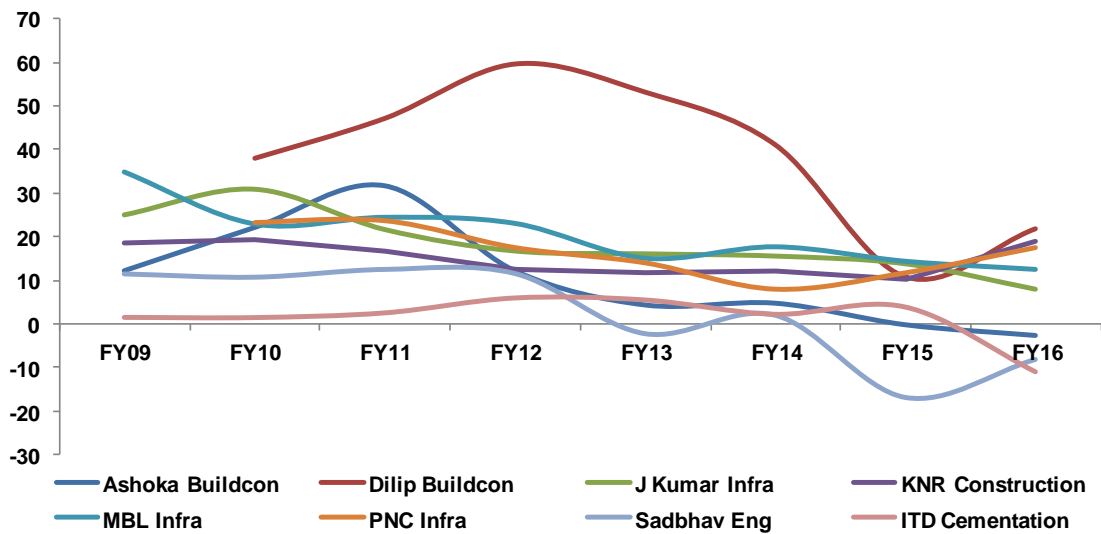
Source: PNC Infra, Ventura Research

### ...as a result of lean working capital cycle



Source: PNC Infra, Ventura Research

### RoE superior to peers



Source: PNC Infra, Ventura Research

We have not included IRB Infrastructure for peer comparison as IRB derives majority of its revenues from BOT projects; unlike PNC.

## Financial Performance

In Q1FY17, PNC reported a revenue de-growth of 6.2% YoY to Rs 635 crore. The revenue de-growth is on account of the change in accounting standards to Ind-AS. As per IGAAP, the consolidated revenue growth is 24% YoY led by a pick-up in the execution of the Agra-Firozabad stretch, a Rs 1696 crore EPC order it won in 2014. EBITDA margin expanded nearly 650 bps to 26.1% on account of the change in accounting standards and partly as annuity revenues from high margin Rae Bareli Jaunpur BOT road project started to kick in during the quarter. Higher other income includes interest on loans given to subsidiary. The PAT grew two fold from Rs 22 crores in Q1FY16, to Rs 54.3 crores in Q1FY17.

### Quarterly Financial Performance (₹ in crore)

Particulars	Q1FY17	Q1FY16	FY16	FY15
<b>Net Sales</b>	635	678	2346	1809
<i>Growth %</i>	-6.2		29.7	
<i>Total Expenditure</i>	470	545	1939	1529
<b>EBIDTA</b>	165.8	132.2	407.4	280
<i>EBDITA Margin %</i>	26.1	19.5	17.4	15.5
Depreciation	63	45	109	60
EBIT (EX OI)	102.7	86.7	298.3	219.5
Other Income	49.0	9.0	16.7	12.2
<b>EBIT</b>	151.7	95.8	314.9	231.7
<i>Margin %</i>	23.9	14.1	13.4	12.8
Interest	78.0	59.4	128.8	92.5
Exceptional items	0.0	0.0	0.0	0.0
<b>PBT</b>	73.7	36.4	186.2	139
Minority Interest	0.1	0.0	0.0	0.0
Share of profit & los:	-11.8	-0.2	0.0	0
<b>PBT (incl MI)</b>	62.0	36.2	186.2	139.2
Tax	7.7	14.0	-43.0	48
<b>PAT</b>	54.3	22.1	229.2	91.3
<i>PAT Margin (%)</i>	9%	3%	10%	5%

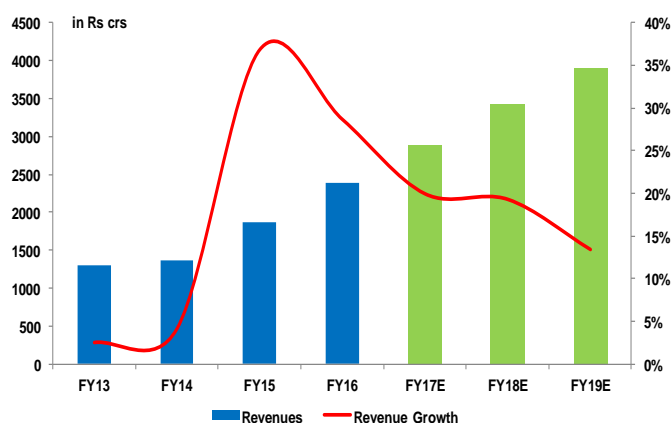
Source: PNC Infra, Ventura Research

## Financial Outlook

### ➤ Revenues expected to grow at a CAGR of 18.8%

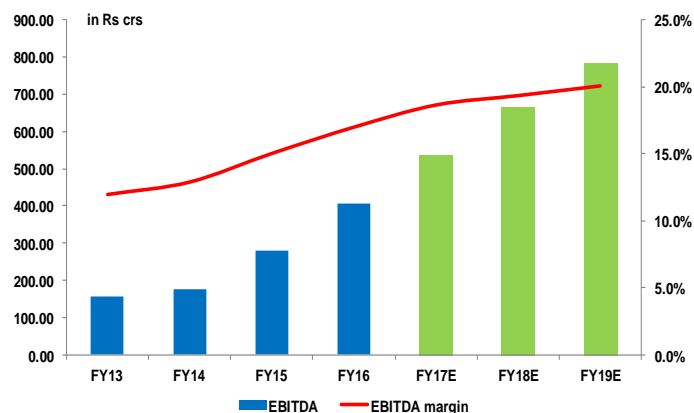
We expect PNC's consolidated revenues to grow at a 3-year CAGR of 18.8% to Rs 4,013 crore in FY19E on the back of a ~17% CAGR in EPC revenues and a 25% CAGR in BOT revenues. We expect the EBITDA to grow at a 3-year CAGR of 25.4% to Rs 804 crores in FY19; the EBITDA margin is expected to expand to 20.0% in FY19, up 300 bps from FY17, on the back of an increasing proportion of BOT revenues (from 16% in FY16 to ~20% in FY19E). The PAT is expected to grow at a 3 year of 19.7% to Rs 393 crores by FY19; the PAT margin is expected to remain at ~9-10% levels. The expansion in operating margins is expected to be negated by losses in the Ghaziabad-Aligarh JV (35% share in JV), leading to flat PAT margins.

#### Expect topline growth of 18.8% CAGR



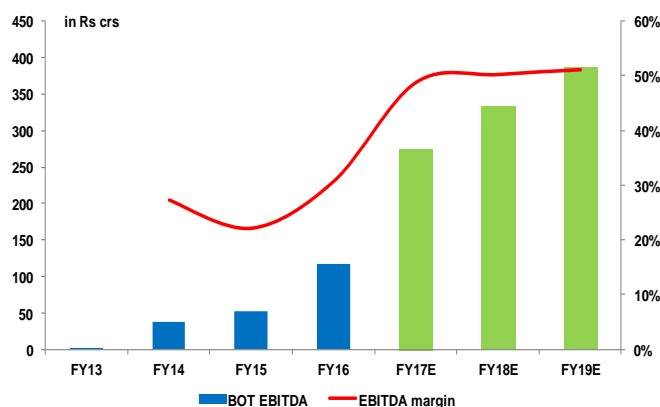
Source: Ventura Research

#### EBITDA margins to inch higher



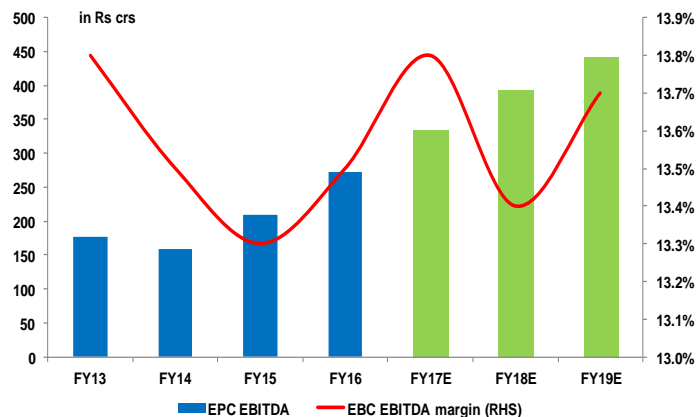
Source: Ventura Research

#### BOT EBITDA to grow at 49% CAGR



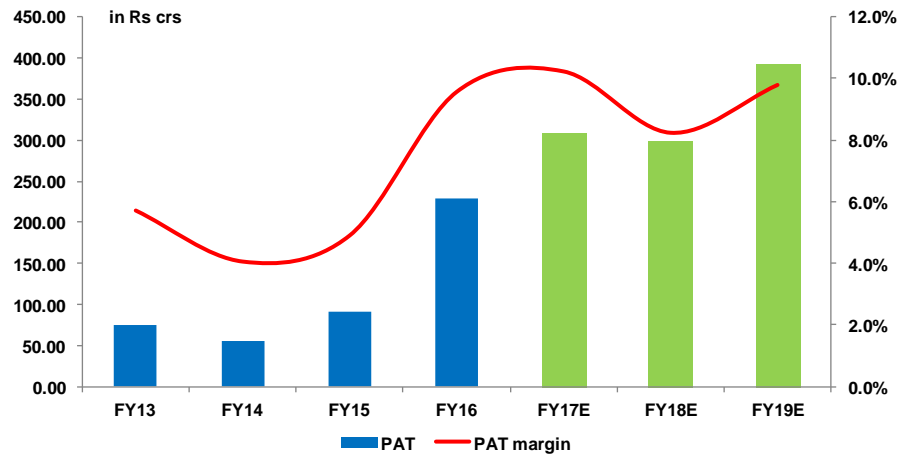
Source: Ventura Research

#### EPC EBITDA to grow at 17.6% CAGR



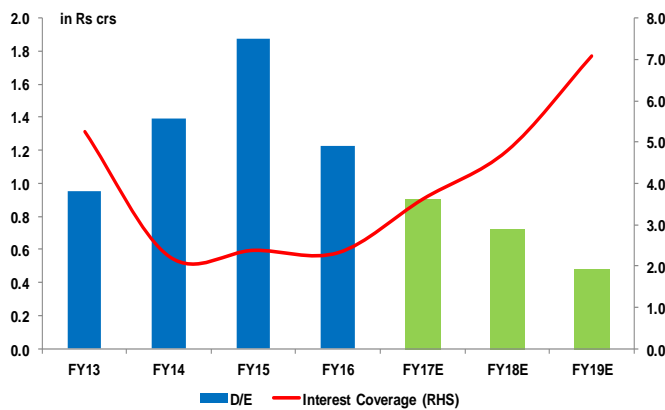
Source: Ventura Research

### PAT to grow at 19.7% CAGR



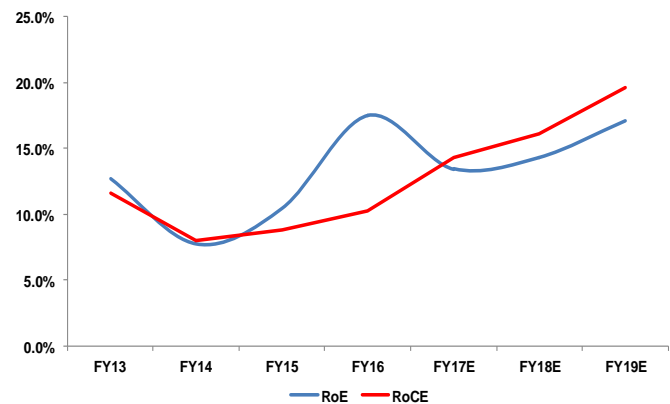
At a standalone level, PNC does not have debt on its books on account of prudent working capital management and strong execution skills. Consolidated D/E is expected to reduce from 1.2x to 0.4x by FY19 on robust top-line growth.

### Debt to reduce; interest coverage high



Source: Ventura Research

### Return ratios to improve to near 20%



Source: Ventura Research



## ➤ Valuation

We initiate coverage on PNC Infra as a BUY with a Price Objective of ₹187, representing a potential upside of 52% over a period of 18 months. We have arrived at our target price using the SOTP method. We have valued PNC's EPC business at a PE of 15x to FY19 EPS of Rs 10.6, translating to a value of Rs 159/share. We value the BOT projects at Rs 28/share, implying a P/B of 1.6x. On a consolidated basis, our target price implies a PE of 16x/12x on FY18/19 EPS estimate.

We believe PNC, with its strong execution record and good order book visibility, healthy balance sheet, lean working capital cycle and lucrative positioning, is a good play on the rapidly growing roads sector.

### Valuation of the EPC business

Key Assumptions	FY17	FY18	FY19
Order Book	8000	8800	9680
Revenues	2424	2933	3227
EBITDA	335	393	442
PAT	253	248	272
EPS	9.8	9.7	10.6
Assigned PE			15
<b>Target Price</b>			<b>159</b>

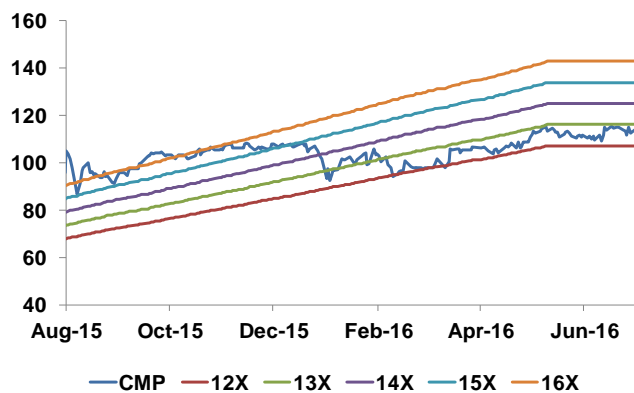
Source: Ventura Research

### Valuation of the BOT business

BOT ( in Rs crs)	Equity NPV	PNC Equity	Price Per Share	Implied P/Bv
Raebareli Jaunpur	79.1	140	3.1	0.6
Kanpur Kabrai	128.9	68	5.0	1.9
Kanpur Ayodhya	108.6	0.5	4.2	
Narela Industrial Area	50.6	35	1.97	1.4
Bareilly Almora	105.58	75	4.1	1.4
Gwalior Bhind	104.36	78	4.1	1.3
Ghaziabad Aligarh (PNC's share)	146	68	5.7	2.1
<b>Total</b>	<b>723</b>	<b>465</b>	<b>28</b>	<b>1.6</b>

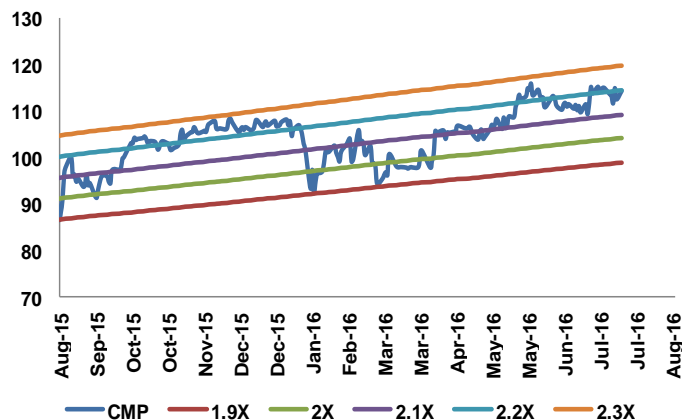
Source: Ventura Research

### PE band chart



Source: Ventura Research

### P/Bv band chart



Source: Ventura Research

**Peer comparison on financial parameters**

In Rs Cr	Sales	EBITDA	PAT	EBITDA Mgn	PAT Mgn	EPS	ROE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
<b>Indian Peers</b>										
<b>PNC Infra</b>										
2016	2395	407	229	17.0%	9.6%	8.9	17.5	11.8	0.5	10.3
2017E	3019	561	309	18.6%	10.2%	12.0	19.6	10.2	2.0	7.8
2018E	3627	685	299	18.9%	8.2%	11.7	16.4	10.6	1.8	6.1
<b>IRB Infra</b>										
2016	4915	2643	630	53.8%	12.8%	13.5	13.5	12.1	1.6	7.9
2017E	5776	3130	664	54.2%	11.5%	13.0	13.0	11.5	1.4	7.2
2018E	6516	3627	458	55.7%	7.0%	12.5	12.5	10.8	1.3	6.5
<b>Ashoka Buildcon</b>										
2016	2704.3	476.1	98.3	28.2%	3.6%	5.4	5.4	31.7	1.6	9.9
2017E	3001.4	85.1	112.4	28.4%	3.7%	6.0	6.0	27.2	1.5	8.7
2018E	3460.5	944.5	110.7	27.3%	3.2%	6.4	6.4	24.4	1.5	7.6
<b>KNR Construction</b>										
2016	904.2	153.4	91.4	17.0%	10.1%	10.2	10.2	21.9	1.8	2.4
2017E	1300.2	231.7	72.1	17.8%	5.5%	9.5	9.5	22.0	1.9	2.0
2018E	1573.1	280.0	45.1	17.8%	2.9%	11.8	11.8	16.2	1.8	1.7
<b>MEP Infra</b>										
2016	1991.7	558.1	23.6	28.0%	1.2%	22.4	22.4	29.3	7.1	NA
2017E	1940.9	574.9	58.5	29.6%	3.0%	32.5	32.5	11.0	3.9	NA
2018E	2015.7	606.5	50.0	30.1%	2.5%	31.5	31.5	8.1	2.8	NA
<b>MBL Infra</b>										
2016	2342.1	276.5	87.8	11.8%	3.7%	12.1	12.1	6.1	0.8	0.7
2017E	2797.0	408.0	84.0	14.6%	3.0%	10.6	10.6	6.4	0.7	0.7
2018E	2971.0	298.9	112.8	10.1%	3.8%	13.2	13.2	4.5	0.6	0.6
<b>ITD Cementation</b>										
2016	2368.5	177.1	22.0	7.5%	0.9%	4.6	4.6	98.4	4.7	NA
2017E	3614.0	266.0	90.4	7.4%	2.5%	16.0	16.0	24.5	3.8	10.2
2018E	4139.8	362.7	NA	8.8%	NA	21.5	21.5	16.3	3.0	7.5

Source: Ventura Research

## Financials and Projections

Y/E March, Fig in Rs Cr	FY16	FY17E	FY18E	FY19E
<b>Profit &amp; Loss Statement</b>				
<b>Net Sales</b>	<b>2394.6</b>	<b>3018.5</b>	<b>3626.8</b>	<b>4013.3</b>
% Chg.	28.7	26.1	51.5	33.0
Total Expenditure	1987.3	2457.9	2941.3	3209.6
% Chg.		23.7	19.7	30.6
<b>EBDITA</b>	<b>407</b>	<b>561</b>	<b>685</b>	<b>804</b>
EBDITA Margin %	17.0	18.6	18.9	20.0
Other Income	16.7	55.1	25.4	28.1
<b>PBDIT</b>	<b>424.0</b>	<b>615.8</b>	<b>710.9</b>	<b>831.8</b>
Depreciation	109.1	135.1	180.9	186.1
Interest	128.8	112.9	100.3	84.9
Exceptional items	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>186.2</b>	<b>367.8</b>	<b>429.7</b>	<b>560.8</b>
Tax Provisions	-43.0	25.7	107.4	157.0
<b>Reported PAT</b>	<b>229.2</b>	<b>342.0</b>	<b>322.3</b>	<b>403.8</b>
Minority Interest	0.0	0.0	0.0	0.0
Share of Associate	0.0	-33.1	-23.3	-10.6
<b>PAT</b>	<b>229.2</b>	<b>309.0</b>	<b>298.9</b>	<b>393.2</b>
PAT Margin (%)	9.6	10.2	8.2	9.8
<b>Balance Sheet</b>				
Share Capital	51.3	51.3	51.3	51.3
Reserves & Surplus	1258.4	1522.4	1776.3	2124.5
Minority Interest				
Long Term Borrowings	1573.5	1323.5	1223.5	973.5
Deferred Tax Liability	-3.2	-3.2	-3.2	-3.2
Other Non Current Liabilities	161.2	246.2	282.9	313.5
<b>Total Liabilities</b>	<b>3042</b>	<b>3141</b>	<b>3331</b>	<b>3462</b>
Gross Block	2602.7	2702.7	2782.7	2862.7
Less: Acc. Depreciation	318.8	454.0	634.9	820.9
Net Block	2283.9	2248.7	2147.9	2041.8
Capital Work in Progress	6.0	6.0	6.0	6.0
Other Non Current Assets	61.5	61.8	62.1	62.5
Net Current Assets	442.9	596.5	842.3	1049.1
Long term Loans & Advanc	247.1	226.4	272.0	301.0
<b>Total Assets</b>	<b>3042</b>	<b>3141</b>	<b>3331</b>	<b>3462</b>
<b>Per Share Data (Rs)</b>				
Adj. EPS	8.9	12.0	11.7	15.3
Cash EPS	13.2	17.3	18.7	22.6
DPS	1.5	1.5	1.5	1.5
Book Value	51.1	61.3	71.2	84.8
<b>Capital, Liquidity, Returns Ratio</b>				
Debt / Equity (x)	1.2	0.9	0.7	0.5
Current Ratio (x)	1.8	2.2	2.7	2.8
ROE (%)	17.5	19.6	16.4	18.1
ROCE (%)	10.2	14.3	16.4	19.1
Dividend Yield (%)	1.3	1.3	1.3	1.3
<b>Valuation Ratio (x)</b>				
P/E	11.8	10.2	10.6	8.0
P/BV	2.3	1.9	1.7	1.4
EV/Sales	1.8	1.5	1.2	1.0
EV/EBIDTA	10.3	7.8	6.1	4.8
<b>Efficiency Ratio (x)</b>				
Inventory (days)	21	25	25	25
Debtors (days)	63	62	62	62
Creditors (days)	0	22	22	22
<b>Cash Flow Statement</b>				
<b>Profit Before Tax</b>	<b>186.2</b>	<b>367.8</b>	<b>429.7</b>	<b>560.8</b>
Depreciation	109.1	135.1	180.9	186.1
Working Capital Changes	-133.3	-179.1	-260.6	-58.7
Others	164.8	79.8	-14.9	-80.3
<b>Operating Cash Flow</b>	<b>326.7</b>	<b>403.6</b>	<b>335.2</b>	<b>608.0</b>
Capital Expenditure	-233.4	-100.0	-80.0	-80.0
Other Investment Activities	28.2	0.0	0.0	0.0
<b>Cash Flow from Investing</b>	<b>-205.2</b>	<b>-100.0</b>	<b>-80.0</b>	<b>-80.0</b>
Changes in Share Capital	11.5	0.0	0.0	0.0
Changes in Borrowings	-31.4	-250.0	-100.0	-250.0
Dividend and Interest	-24.7	-99.7	-124.3	-100.9
<b>Cash Flow from Financing</b>	<b>-56.1</b>	<b>-349.7</b>	<b>-224.3</b>	<b>-350.9</b>
<b>Net Change in Cash</b>	<b>35.1</b>	<b>-46.1</b>	<b>30.9</b>	<b>177.1</b>
<b>Opening Cash Balance</b>	<b>195.8</b>	<b>106.4</b>	<b>60.3</b>	<b>91.2</b>
<b>Closing Cash Balance</b>	<b>106.4</b>	<b>60.3</b>	<b>91.2</b>	<b>268.2</b>

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