

Infrastructure Pack



Investment Rationale:

- The Government has announced the National Infrastructure Pipeline (NIP) for Rs. 102 lakh cr during FY20-FY25E.
- These investments will help Indian economy to target USD5trn in GDP by FY25.
- We believe government will pursue strategy of aggressive Investment in infrastructure to overcome the current slowdown.
- The policy of high government spending will energizes demand in infrastructure related sectors.
- We believe companies like Larsen & Toubro, APL Apollo Tubes, KNR Constructions, Supreme Industries, PSP Projects, KEC International, ACC, Container Corporation would be key beneficiaries.

Initial Allocation:

Sr. No.	Stocks	Price	Weight
1	ACC	1423	12.5
2	APL Apollo Tubes	2114	12.5
3	Concor	550	12.5
4	KEC International	339	12.5
5	KNR Constructions	280	12.5
6	Larsen & Toubro	1281	12.5
7	PSP Projects	518	12.5
8	Supreme Industries	1391	12.5
Total			100

HDFC Scrip Code	ACCLTD
BSE Code	500410
NSE Code	ACC
Bloomberg	ACC:IN
CMP (as on 20 Feb, 20)	Rs.1423
Equity Capital (Rs cr)	188
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	18.78
Market Cap (Rs cr)	26,722
Book Value (Rs)	614.7
Avg. 52 Week Volumes	1714025
52 Week High	Rs.1768.4
52 Week Low	Rs.1326.15

Shareholding Pattern % (Dec 2019)	
Promoters	54.53
Institutions	29.82
Non Institutions	15.65

Key Rationale:

ACC is a leading Indian cement company with total installed capacity of 33.41 mtpa as on September 30, 2019. It manufactures cement and ready mix concrete with 17 cement factories, 75 ready mix concrete plants and a vast distribution network of 50,000+ dealers & retailers. In 2005, ACC Limited became a part of the reputed Holcim group of Switzerland.

- Aided by good cost controls and cement price hike in 1HCY19, ACC's TTMEBITDA/MT currently is at seven-year high level. ACC's OCF rebound to 10-yr high of Rs 2250cr.
- We expect ACC's margin to sustain at ~Rs 800/MT levels driven by energy cost tailwinds.
- The on-going expansions (6mn MT, 20% capacity increase) will drive volume growth of CY22 and onwards, thereby boosting its position in the central market.
- Housing segment is likely to drive cement demand in CY20. Budget allocation of Rs 19,500cr under Pradhan Mantri Gram Sadak Yojana (PMGSY) for expansion of rural road network - positive for cement sector.

Outlook & Valuation:

The cement industry has witnessed weak volume off take traction in CY19. Demand is expected to revive in coming times, with hopes pinned on a revival in the real estate sector led by the recent RBI announcement and budgetary allocation to infra sector.

ACC's valuations are inexpensive given that it continues to generate healthy return ratios and has a net cash balance sheet, despite ongoing expansions.

Financial Summary

(Rs cr)	CY18	CY19	CY20E	CY21E
Revenues	14801	15657	16095	16989
EBITDA	2118	2412	2436	2610
EBIDTA Margin (%)	14.3	15.4	15.1	15.4
APAT	1090	1279	1467	1597
AEPS	58.1	68.1	78.1	85
PE (x)	24.6	21	18.3	16.8
EV/EBITDA (x)	10.41	9.14	9.06	8.45

(Source: Company, HDFC sec)

HDFC Scrip Code	LARTOU
BSE Code	500510
NSE Code	LT
Bloomberg	LT
CMP (as on 20 Feb, 20)	Rs.1281
Equity Capital (Rs cr)	280.72
Face Value(Rs)	2
Eq Sh. Outstanding (cr)	140.3
Market Cap (Rscr)	179793
Book Value (Rs)	451
Avg. 52 Week Volumes	3326988
52 Week High	Rs.1607
52 Week Low	Rs.1201

Shareholding Pattern (Dec-2019)	
Institutions	55.72
Non Institutions	42.92
Others	1.36

Key Rationale:

- Larsen & Toubro is one of the major players in infrastructure and Engineering and has presence globally in over 30 countries around the world.
- The company operates in various segments like Infrastructure, Power, heavy Engineering, Defence Engineering, Hydrocarbon, Shipbuilding, material handling, Mining equipment etc.
- Infrastructure is the company's largest vertical in terms of order book, revenue and absolute earnings. For the 9MFY20 the segment contributed 73% of the total order book and 47% of total revenues.
- Government 's continuous focus on infrastructure development with its initiatives like "Make In India" and recently announced National Infrastructure Pipeline (NIP) provides huge opportunity for the company in coming years.
- The resumption of struck projects in Andhra Pradesh, Maharashtra and NCR augurs well and will start contributing in the coming quarters.
- The sale of E&A (Electrics and Automations) business is expected to conclude by end of FY20 or during Q1Fy21. This may translate into higher payout to shareholders by means of special dividend.
- Over the next two years, we estimate Revenues/EBITDA/PAT to grow at CAGR of ~12%/22%/24% on the back of strong order book, Government's continuous focus on Infrastructure Development and resumption of struck projects.

Financial Summary

(Rs Cr)	FY18	FY19	FY20E	FY21E
Sales	119683	141007	158725	175915
EBITDA	13571	16279	18474	21729
Net Profit	7245	8611	10748	13161
EPS (Rs)	51.6	61.4	76.6	93.8
P/E	26.4	22.2	17.8	14.6
Net D/E	1.6	1.6	1.6	1.4
EV/EBITDA	20	17.3	15.8	13.5

(Source: Company, HDFC sec)

HDFC Scrip Code	APLAPO
BSE Code	533758
NSE Code	APLAPOLLO
Bloomberg	APAT.IN
CMP (as on 20 Feb, 20)	Rs.2114
Equity Capital (Rs cr)	24.3
Face Value (Rs)	10
Eq Sh. Outstanding (cr)	2.43
Market Cap (Rscr)	5,247
Book Value (Rs)	528
Avg. 52 Week Volumes	34685
52 Week High	Rs.2216.95
52 Week Low	Rs.1079

Shareholding Pattern (Dec-2019)	
Promoters	38.26
Institutions	14.95
Non Institutions	46.79
Total	100.0

Key Rationale:

- APL Apollo Tubes is the largest producer of Electric Resistance Welded (ERW) Steel Pipes and Sections in India with a capacity to produce 2.5 Million Tonnes per annum.
- The ERW steel tubes market is pegged at Rs. 30,000 crore and is estimated to grow at ~10-12% CAGR in the coming years.
- APL Apollo has diversified product portfolio which includes Hollow Sections, Pre-Galvanized Tubes, Galvanized Tubes and MS Black Pipes. Company has pan India dealer distributor network of roughly 790 distributors, 27 warehouses and 50,000 retailers ensuring proximity to its end customers and localizing supply thereby fast tracking its growth. Currently, APL Apollo has the largest and most entrenched distribution network in the structural steel sector India.
- Recent acquisition of Apollo Tricoat which is the first company to introduce 'Galvant Technology' will enable the company to expand its portfolio in the high margin segment.
- On a continuous basis, company endeavors new technologies for the betterment of the business and its processes. It was the first company to offer pre-galvanized and color coated pipes and then in 2016 company was pioneer to bring Direct Forming Technology (DFT) which allows it to offer customized products at lower cost with shorter lead times as unlike previous technology, where round pipes were formed first and then converted to square or rectangular, DFT enables direct formation of hollow pipes of various sizes and shapes.
- Over the next three years, we estimate Revenues/EBITDA/PAT to grow at CAGR of ~16.5%/24%/40% on the back of strong volume growth, cost efficient measures by the company through adoptions of new technology and reduction of effective tax rate.

Financial Summary (Consolidated)

(Rs Cr)	FY19	FY20E	FY21E	FY22E
Sales	7152.0	8368.0	10042.0	11297.0
EBITDA	393.0	522.0	678.0	756.0
Net Profit	148.0	250.0	366.0	412.0
EPS (Rs)	62.2	103.0	150.8	169.4
P/E	29.6	17.9	12.2	10.9
D/E	0.7	0.5	0.3	0.3
EV/EBITDA	13.0	9.8	7.3	6.5

(Source: Company, HDFC sec)

HDFC Scrip Code	KNRCON
BSE Code	532942
NSE Code	KNRCON
Bloomberg	KNRC IN
CMP (as on 20 Feb, 20)	Rs.280
Equity Capital (Rs cr)	28.12
Face Value (Rs)	2
Eq Sh. Outstanding (cr)	14.06
Market Cap (Rscr)	3934
Book Value (Rs)	93
Avg. 52 Week Volumes	150643
52 Week High	Rs.311.05
52 Week Low	Rs.187

Key Rationale:

- KNR Constructions Ltd. Is a multi-domain infrastructure project development company. The company undertakes engineering, procurement and construction (EPC) contracts, as well as build-operate-transfer (BOT) projects across vertical sectors, such as construction and maintenance roads, highways, flyover, and bridges. Its range of verticals also includes irrigation projects, water management, agriculture and trading business.
- KNC Construction has adopted backward integration strategy. It follows a model of owning the required equipment and does not subcontract work. This in turn has helped company in managing sustain & superior profit margin of around 15-17% and has also achieved track record of timely project completion. The company has many times received bonuses for early projects completion.
- KNR Constructions is the only listed EPC player with near-zero long term debt, since its listing. Of the Rs 3.1bn in gross debt, Rs 2.1bn is from promoters. Net D/E (including this debt) is 0.2x only.
- In the last 20 years, KNR has successfully executed road projects of more than ~6,000 km across 12 states in India. During 3Q/9MFY20 KNR bagged new orders worth Rs 4/22bn vs Rs 30bn guidance for FY20. KNR is targeting ~Rs 15bn of new NHAI EPC/HAM projects for 4QFY20E. Net executable order book as of 9MFY20 is Rs 59bn.

Shareholding Pattern (Dec-2019)	
Promoters	55.17
Institutions	33.61
Non Institutions	11.82
Total	100.0

Financial Summary (Consolidated)

(Rs Cr)	FY18	FY19	FY20E	FY21E
Sales	1932	2137	2350	2920
EBITDA	386	427	493	558
Net Profit	162	173	217	247
EPS (Rs)	11.5	12.3	15.4	17.6
P/E	24	22.5	18	15.7
EV/EBITDA	10.5	9.7	8.2	6.9

(Source: Company, HDFC sec)

HDFC Scrip Code	SUPIND
BSE Code	509930
NSE Code	SUPREMEIND
Bloomberg	SI IN
CMP (as on 20 Feb, 20)	Rs.1391
Equity Capital (Rs cr)	25.41
Face Value (Rs)	2
Eq Sh. Outstanding (cr)	12.71
Market Cap (Rs cr)	17635
Book Value (Rs)	93
Avg. 52 Week Volumes	78243
52 Week High	Rs.1413.95
52 Week Low	Rs.950.2

Shareholding Pattern (Dec-2019)	
Promoters	49.7
Institutions	31.7
Non Institutions	18.6

Key Rationale:

- Supreme Industries is the leading player in plastic pipes segment and company is no.2 in Consumer products and Industrial products segment. The company is expanding its capacities which would aid in further revenues from FY21 onwards.
- Supreme enjoys a leading position in most of the segments in which it operates into. While it is the largest plastic pipes and fittings company, it is No. 2 in plastic furniture (consumer products). It is also the large player in industrial products and packaging products. Supreme commands 10%, 12.5% and 12.7% market share as on FY19 in the plastic pipes products, packaging products and consumer products division respectively.
- Company has a wide range of product portfolio such as plastic piping, consumer products - furniture, packaging products and industrial products includes industrial components (parts of EVMs, VVPATs, AC - washingmachine & Cooler components, components for automobile players); Composite LPG cylinder, performance films and industrial products division etc. Plastic piping division of the company having 8085 different products from that company has introduced 63 varieties of injection moulded pipe fittings.
- Government has initiated initiatives such as Swachh Bharat Abhiyan, Sanitation and affordable Houses which works as a growth driver to the industry. The announcement by Government to provide drinking water in each home "Har Ghar Jal" by the year 2024 will boost the requirement of Plastic Pipe System in large volumes.
- Strong revenues, steady margin expansion and lower tax rate would drive 18% PAT cagr over the same period. We like Supreme for its diversified products range, strong management team, leading position in the segments and robust balance sheet and return ratios.

Financial Summary (Consolidated)

(Rs cr)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	4970	5612	5853	6608	7382
Operating Profit	787	785	789	925	1066
OPM	15.8	14.0	13.5	14.0	14.4
PAT	432	402	494	557	663
EPS	34.0	31.7	38.9	43.9	52.2
P/E	40.9	43.9	35.7	31.7	26.6
EV/EBITDA	21.5	21.3	21.0	18.2	15.8

(Source: Company, HDFC sec)

HDFC Scrip Code	KECLTD
BSE Code	532714
NSE Code	KEC
Bloomberg	KECI IN
CMP (as on 20 Feb, 20)	Rs.339
Equity Capital (Rs cr)	51.4
Face Value (Rs)	2
Eq Sh. Outstanding (cr)	25.7
Market Cap (Rs cr)	8720
Book Value (Rs)	115
Avg. 52 Week Volumes	440269
52 Week High	Rs.358.3
52 Week Low	Rs.230.35

Key Rationale:

- KEC International is a global EPC player in the Power Transmission and Distribution (T&D) space. The company has over 7 decades of experience in executing power T&D projects on turnkey basis and has the ability to provide end-to-end solutions encompassing designing, manufacturing, supply and construction of power transmission lines.
- Over the years, KEC has evolved into a diversified infrastructure play with interests across Railways, Civil, Cables, Water and Solar sectors. With company focusing on Railways & Civil segment in the recent times, we believe that company is well poised to gain benefits from Govt.'s focus on Railways, Infra and oil & gas segment.
- For long, KEC was seen as a proxy play on T&D sector and especially on Power Grid capex, which is now slowing down. Management has been able to successfully reduce dependency on its traditional single largest client. Power T&D (incl. SAE) formed around 85% of the order book in FY15. However, this share declined to 55% in Q3 FY20 and is likely to decline further. The Railways segment now forms 31% of the order book. Civil business is fast emerging as a growth area and forms 11% of the order book. Company has strong order book of Rs 22,000cr or 1.9x FY20E revenues.
- We remain positive on the stock given healthy return ratios, comfortable debt/equity ratio and strong growth expected in the coming years.

Financial Summary (Consolidated)

(Rs cr)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	10058	11001	12534	14235	15488
Operating Profit	1006	1150	1307	1483	1628
OPM	10.0	10.5	10.4	10.4	10.5
PAT	460	486	602	717	803
EPS	17.9	18.9	23.4	27.9	31.2
P/E	19.0	18.0	14.5	12.2	10.9
EV/EBITDA	12.0	10.0	9.0	8.0	7.2

(Source: Company, HDFC sec)

Shareholding Pattern (Dec-2019)	
Promoters	51.6
Institutions	35.4
Non Institutions	13
Total	100.0

HDFC Scrip Code	PSPPRO
BSE Code	540544
NSE Code	PSPPROJECT
Bloomberg	PSPPL IN
CMP (as on 20 Feb, 20)	Rs 518
Equity Capital (Rs cr)	36
Face Value (Rs)	10
Eq Sh. Outstanding (cr)	3.6
Market Cap (Rs cr)	1890
Book Value (Rs)	132
Avg. 52 Week Volumes	89943
52 Week High	Rs.617
52 Week Low	Rs.380

Shareholding Pattern (Dec-2019)	
Promoters	73.7
Institutions	7.65
Non Institutions	18.65
Total	100.0

Key Rationale:

- PSP Projects is a Gujarat based infrastructure play, mainly focused on Industrial and Institutional segment. Company has grown its revenues at 37% and PAT at 52% cagr over FY14-19, albeit on a lower base. In Oct-2017, company had got a larger order of Rs 1575cr of Surat Diamond Bourses (SDB) and it will get executed by Dec-2020. Few months back, it had got order of ~Rs 600cr for housing project at Bhiwandi. We believe that company is poised to get bigger projects, which would ensure orders and earnings visibility in the coming years. Gujarat accounted for 73% of its order book while Maharashtra at 24% and the other states like Rajasthan and Karnataka account for the balance as on Dec-19.
- The company has built a solid reputation, there are vast opportunities driven by the state's next phase of industrialization. New projects are expected to come up around the prestigious Gujarat International Finance Tec-City (GIFT) in Ahmedabad; PSP has already executed several projects in this business district.
- The order book position stands at > Rs 3000cr which is 2.5x FY20E revenues and guides for around Rs 1000cr orders inflow over the next 1-2 quarters. Company is debt free on net basis and has superior return ratios of 20-25%.
- Strong order book, healthy margin, superior return ratios, strong cash rich balance sheet, healthy working capital cycle, free cash flow, expanding geographical footprint and large opportunity in infrastructure space support our positive view on the stock.

Financial Summary (Standalone)

(Rs cr)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	730	1044	1415	1678	1913
Operating Profit	101	149	188	226	264
OPM	13.8	14.3	13.3	13.5	13.8
PAT	64	90	128	146	172
EPS	17.8	25.0	35.6	40.6	47.9
P/E	29.3	20.8	14.7	12.8	10.9
EV/EBITDA	17.5	12.0	10.3	8.9	8.3

(Source: Company, HDFC sec)

HDFC Scrip Code	CONCOR
BSE Code	531344
NSE Code	CONCOR
Bloomberg	CCRI IN
CMP (as on 20 Feb, 20)	Rs.550
Equity Capital (Rs cr)	304.7
Face Value (Rs)	5
Eq Sh. Outstanding (cr)	60.9
Market Cap (Rs cr)	33450
Book Value (Rs)	165
Avg. 52 Week Volumes	750143
52 Week High	Rs.665
52 Week Low	Rs.460

Shareholding Pattern (Dec-2019)	
Promoters	54.8
Institutions	40.6
Non Institutions	4.6
Total	100.0

Key Rationale:

Container Corporation is the India's dominant container rail operator (~75% market share) is expected to report robust ~20% earnings CAGR over FY19-22E, with the commissioning of the (Western) Dedicated Freight Corridor as well as internal efficiencies. We expect volume growth to pick up from FY21 onwards. Over the last three years, EBITDA margin have risen by 200bps and we expect the same trend to continue in the coming years. One of the key priorities of the government is the completion of the Dedicated Freight corridors by 2021. This will also help Concor to register better revenues and profitability in the coming years.

Despite the benefits of rail based transport, India's freight transport mix is heavily skewed towards road, due to the limited investments in the capex intensive rail and water infrastructure. Thus, amongst the large countries (by land mass), India's share of non-road based transport is significantly lower.

Container Corporation is confident of maintaining high growth pace over the next 3-5 years expecting a road to rail shift post the commissioning of the Western Dedicated Freight Corridor (DFC) and also by scaling up other logistics services.

Management eyes significant growth opportunities in rail logistics and other services over the next five years. Concor's volumes will grow in mid-teens due to the phased commission of the DFC. We expect volume growth to pick up from FY21 onwards, once the new lines from Rewari to Palanpur are commissioned. Concor has the dominant market share and it is expected to a significant beneficiary of the DFC. Govt initiatives on divestment will address capital allocation concerns and will lead to a re-rating of valuation multiples.

Financial Summary (Consolidated)

(Rs cr)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	6157	6882	6615	7613	9154
Operating Profit	1476	1780	1621	1949	2340
OPM	24.0	25.9	24.5	25.6	25.6
PAT	1045	1215	1019	1364	1694
EPS	17.2	20.0	16.7	22.4	27.8
P/E	32.3	27.8	33.2	24.8	20.0
EV/EBITDA	20.8	23.8	20.0	17.0	14.0

(Source: Company, HDFC sec)

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