RPP Infra Projects Limited (BOM – 533284) (NSE – RPPINFRA)

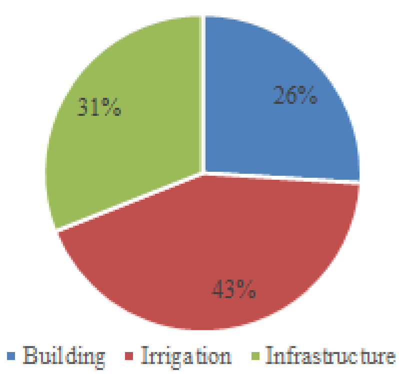
Last Price (11/12)	Market Cap	Industry	Dividend Yield (%)	Return on Equity	Price Target (FY19)
INR 311	703 INR Crore	Infrastructure	0.16	13.9%	INR 423 (36%)

Relative Valuations

	RPP	Sector	Country
Adjusted P/E	31x	39x	25x
Forward P/E	20x	24x	21x
EV/ EBITDA	15x	18x	15x
P/CF	14x	16x	14x

Source: Imperative Estimates, Bloomberg

RPP's Order Book Distribution



Buy-side:

Government increasing impetus on water management and roads infrastructure in states with RPP's presence.

Expanding its market reach by venturing into niche areas, new geographies, sectors, segments

Consistently stable to rising margins since more than 5 years.

Sell-side:

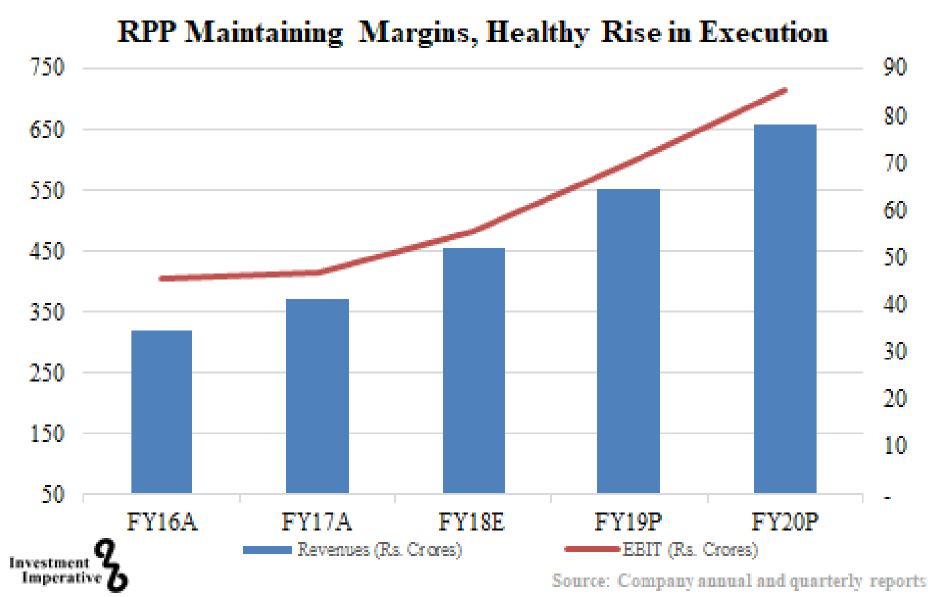
RPP moving towards larger projects will have increased risks of intense competition and execution.

Increased resource and machinery requirement for executing larger projects will add upto financing cost and risk.

RPP Riding High on Niche Complex Projects and Government Infra Spending

Execution Capabilities Thrived First Half of FY2018

RPP Infra Projects Ltd registered revenues of INR 108 crores in Q2FY18 and INR 220 crores for HIFY18, citing the strong execution and order garnering capabilities in Construction, Infra and Water management verticals. The company managed to grow topline by 29% in H1FY18 compared to same period previous year, on strategically growing its order book across all its operational verticals in five major states Andhra Pradesh, Madhya Pradesh, Karnataka and Telangana, besides Tamil Nadu. The central and state governments have initiated various projects focused on the creation of infrastructure in these states which are giving required boost to the industry.



The Net profitability grew by 21.7% in H1FY18 compared to H1FY17, which is in accordance with revenue growth suggesting equal impetus being given to the execution efficiencies, employee productivity, timely payments, keeping finance cost in control or even reducing. Also, with the current order book majorly dominant with Government projects in the fastest growing spaces, we can expect this trend to continue and margins further improvised.

Future outlook

RPP Infra's presence in areas having high entry barriers, presence in sub segments of infrastructure like irrigation, channels and other related structures to provide continued growth in its order book. We are projecting order book of over INR 1,500 in 2 years with topline crossing INR 630 crores by FY19. On a price to earnings multiple of 20.7x and enterprise value to ebitda multiple of 10.8x, we are giving a price target of Rs.423 for FY19.

Complex Irrigation Infrastructure Projects Propels RPP's 1000 crore Order Book

Government Projects Thrive Order Book

RPP's order book has shown tremendous buoyancy in recent quarters as compared to previous few years. The order book size has grown to total of INR 1044 crores as on Q2FY18 as compared to the range of 500-700 in previous years. In H1FY18, the company bagged in some major projects from state governments.

New contracts added majorly from Tamil Nadu Government in Infrastructure space

RPP's order book jump to Rs 1000 crore mark for first time.

RPP looking to diversify by foraying into other states as well as internationally.

RPP bagged in an order worth INR 189.5 crore from Tamil Nadu Water Supply & Drainage Board (TWDB), which is for improvement of water supply distribution system in Coimbatore City, scheduled to be completed in 24 months. Overall, RPP has bagged in orders of INR 349 crores in 1HFY18 which constitute 33% of total order book, reflecting RPP's growing capabilities into large and complex projects. Other major orders inflow during the H1FY2018 include:

Segment	Principal Party	Nature of Job	Total Value (INR crores)
Construction	Tamil Nadu Civil Supplies Corporation	Construction of Scientific Storage Godown in Nagapattinam District	51.2
Construction	Karnataka State Police Housing and Infrastructure Development Corporation	Construction of Police Quarters in Kolar city and Mysore District	50.7
Infra	Tamilnadu State Agriculture Marketing Board	Establishment of Primary Processing Centre for Supply Chain Management at Pochampalli in Krishnagiri District	19.1
Infra	Sumitomo Electric Industries Limited	Supply of High Voltage Direct Current (HVDC) transmission system	39

Where does the order book growth story lies?

RPP Infra's major focus has been niche and complex projects given which it has been able to garner in various water management projects this fiscal year. Projects in roads infrastructure space and water management are particularly high margin yielding contracts. Its current order book constitutes 43% of orders in water management space while 31% of contracts are from infrastructure space.

A sizable chunk of government spending is routed towards roads infrastructure and irrigation water supply in states like Tamil Nadu, Karnataka, Madhya Pradesh, while the company holds a decent bidding strike rate. To manage the risks relating to cyclical slowdowns in the construction space, the company has been successfully diversifying across the offerings sector as well as region-wise.

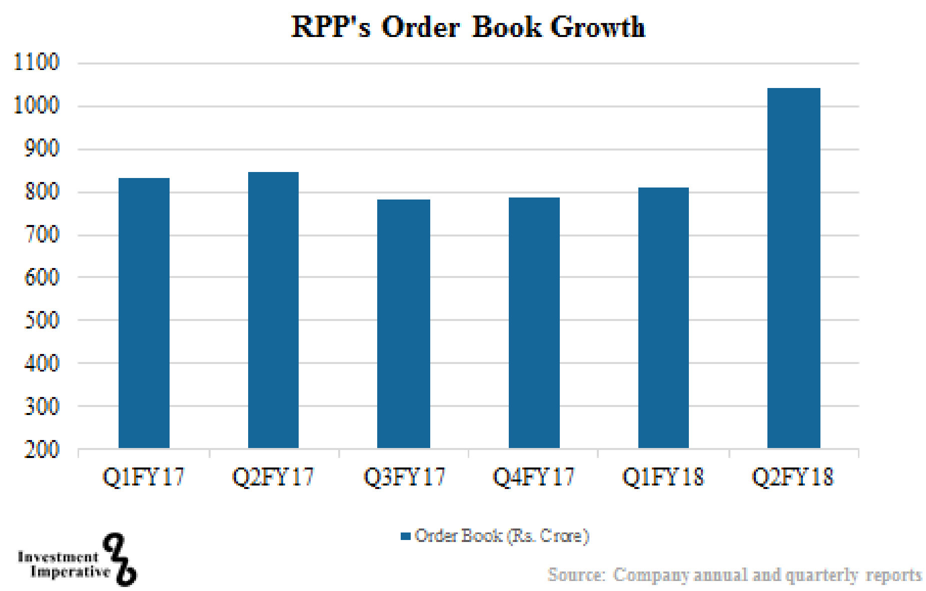
RPP Demonstrates Strong Execution Capabilities in Infra and Irrigation

Performance Overview

RPP registered Q2FY18 Revenues of INR 108 crores against INR 86 crores in Q2FY17, primarily assisted by growing order book and strong execution capabilities in large complex projects. The company's revenue runrate crossed a markable milestone of above INR 100 crore mark in current year quarters from the range of 75-90 crores in previous year's quarter. First half of FY18 revenues grew 29.3% compared to same period previous year.

Enhanced Margin Visibility due to Water Management vertical projects.

Second rating upgrade in two years, affirming the company's improving and investible balance sheet



Maintaining margins

It managed to maintain stable EBIDTA margins at 15% for H1FY18 which are slightly lower than previous year on account of soaring commodity prices. However, the operating margin pressure is unlikely to be greater in future considering RPP's focus on projects in relatively complex niches such as power and water management where the expected margins are higher in the range of 16-20%. Such projects require engineering expertise and specialized equipment hence the entry barriers thereon are significantly high which can be translated into higher margins.

RPP was able to maintain interest costs at same levels given which net profitability margins were on expected lines at 6.5% for H1FY18.

Liquidity improved

In FY19, RPP can see improved cash flow generation, lower financial and higher operating leverage amidst rising order book. This can lead to higher net margins in the medium to longer run. The company is relatively better capitalized and liquid in September 2018 with equity capital of INR 188 crores and cash reserves of INR 76 crores, compared to INR 175 crores and cash reserves Nil in March 2017.

Water and Irrigation Projects on Priority List of State and Central Government

Water management and irrigation infrastructure has been at the forefront on the agendas set by the government pushing for development. Various initiatives by the central/state governments towards advancing economies will provide rising opportunities in institutional projects. For instance

- The Andhra Pradesh government has earmarked a mammoth INR 73,000 crore for setting up a smart industrial township across 10,000 hectares even as the newly carved-out state builds a new capital in Amaravati.

- Outlay of INR 50,000 crore in five years under Pradhan Mantri Krishi Sinchayee Yojana that envisages the coverage of irrigation to all farmlands across India

- Projected construction of 10 million housing units (FY2017-2019) under 'Pradhan Mantri Awas Yojana – Gramin' and 40 million housing units in rural areas under the 'Housing for All' platform

- Finalization of Smart City developmental plan for 20 cities (out of the 98) with a cumulative expenditure of US$7.5 billion over the next five years.

Pipeline projects

Some of the recent announcements and projects in pipeline relate to

- Setting up of three elevated corridors in the state of Tamil Nadu, outlay of INR 100000 crore for the same from the centre.

- Two river linking projects of Godavari and Indravati to utilize surplus water for irrigation purpose

- Plan to Modernise the Tuticorin port with total outlay of INR 3000 crores to be spent to dredge port, increasing its draft from 14m to 16.5m

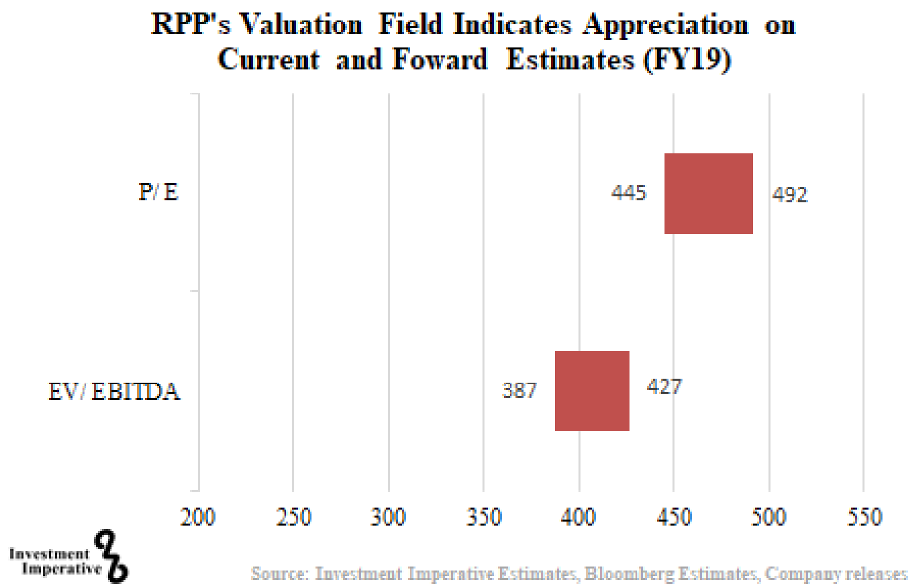
- Designing, Constructing Erection Commissioning of Sewage Treatment Plant with Modern Technology at Mettupalayam Municipality of Coimbatore District in Tamil Nadu

Repricing, Above Industry Average Growth to Help in Strong Appreciation

Enhancing order book, execution, liquidity, op. margins to boost valuations and bring in line with other major players

Irrigation, pipeline allocation would boost revenue model of the company and hence valuations

RPP is currently garnering a price to earnings multiple of 20x on a one-year forward earning basis as compared to the industry average of 24x. Overall, the sector has picked up in valuations as government has shown consistency in terms of rewarding projects and targeting areas like affordable housing, industrial projects, irrigation facilities across the states. Interest rates, buoyant capital markets and improving liquidity have allowed companies in the space to improve their balance sheet, execution and overall operating margins.



RPP Infra is riding on its execution capabilities in niche and complex projects including canal, irrigation, pipeline works, helping the company command consistency in building of order book and generation of cash flows.

On a one year forward basis, the company's peers are trading at an EV to EBITDA multiple of 10.8x and price to earnings ratio of 20.7x, considering increased visibility in revenues, joint ventures for bidding of bigger projects, scope of revaluation compared to the industry and a bottomline growth of around 40%-50%, the stock can garner a valuation of Rs.423 on one year forward basis in FY19.

Projected Financials

RPP Infra's Income Statement

(All figures in INR Crores unless stated otherwise)	FY14A	FY15A	FY16A	FY17A	FY18E	FY19P	FY20P
Revenue from operations	**240**	**266**	**315**	**367**	**478**	**626**	**816**
Other income	**7**	**5**	**5**	**3**	**3**	**3**	**4**
Total Revenues	**247**	**270**	**320**	**370**	**481**	**630**	**820**
Operating Expenses							
Raw Material Cost	68	54	79	95	120	154	205
Direct Operating Costs							
Works Contract	67	89	129	168	152	195	255
Labour Wages	41	66	39	26	108	145	185
Freight, Power and Other Charges	7	5	3	4	3	4	5
Total Employee Benefit Expenses	7	5	6	6	7	7	8
Other manufacturing expenses	15	13	14	18	26	35	45
[-] Total Operating Expenses	**204**	**231**	**269**	**318**	**416**	**541**	**703**
EBITDA	**43**	**40**	**51**	**52**	**65**	**89**	**117**
[-] Depreciation	8	7	5	5	6	7	8
EBIT	**35**	**32**	**46**	**47**	**59**	**82**	**109**
[-] Interest	17	17	19	16	16	16	18
PBT and exceptional, extraordinary items	**18**	**15**	**26**	**31**	**44**	**65**	**91**
Extraordinary item	-	6	0	0	-	-	-
PBT	**18**	**21**	**26**	**30**	**44**	**65**	**91**
[-] Taxes	5	5	7	8	**10**	**14**	**20**
PAT	**14**	**17**	**19**	**23**	**34**	**51**	**71**
Shares in issue (Lakhs)	226	226	226	226	226	226	226
Earnings per share (Rs.)	6.02	7.34	8.50	10.07	15.18	22.64	31.50

RPP's Balance Sheet

(All figures in INR Crores unless stated otherwise)	FY14A	FY15A	FY16A	FY17A	FY18E	FY19P	FY20P
Liabilities & Equity							
Current Liabilities & Provisions							
Cash Credit / Overdraft Utilization	71	78	59	58	79	83	87
[+] Accounts payable	22	107	84	131	104	134	176
[+] Other Current Liabilities	36	47	38	61	50	51	52
[+] Short Term Provisions	7	7	9	9	7	7	7
Total Current Liab. & Prov.	**136**	**239**	**190**	**259**	**240**	**275**	**322**
Non Current Liabilities							
Long term borrowings	15	7	14	17	0	0	0
Deferred tax liabilities	1	-	-	-	1	1	1
Long term provisions	-	0	0	1	1	1	1
[+] Total Non Current Liabilities	**16**	**8**	**15**	**17**	**2**	**2**	**2**
Networth							
Share Capital	23	23	23	23	23	23	23
Reserves and surplus	133	148	164	185	218	268	338
[+] Total Networth	**155**	**171**	**187**	**208**	**241**	**290**	**360**
Total Liabilities & Equity	**306**	**418**	**392**	**484**	**483**	**567**	**685**
Assets							
Current Assets							
Cash & Cash Equivalent	12	14	25	41	30	44	59
[+] Inventory	1	2	3	4	3	3	4
[+] Account Receivables	94	188	168	238	191	242	322
[+] Loans & Advances	60	60	57	65	74	79	84
[+] Other Current Assets	85	93	91	83	119	130	141
Total Current Assets	**251**	**358**	**343**	**431**	**419**	**500**	**612**
[+] Net Fixed Assets	**47**	**39**	**26**	**29**	**42**	**45**	**49**
[+] CWIP	3	3	4	4	**4**	**4**	**4**
[+] Non-current investments	0	0	0	0	0	0	0
[+] Long term loans and advances	1	1	1	2	2	2	2
[+] Other non current assets	4	16	17	18	19	20	21
Total Assets	**306**	**418**	**391**	**483**	**483**	**567**	**685**

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