29 June 2020

H G Infra Engineering

Rating: **Buy**
Target Price: ₹311
Share Price: ₹201

Assurance in hand, execution the key; retaining a Buy

Despite being subject to the covid disruption, H G Infra's Q4 revenue performance was comforting. Coupled with strong inflows augmenting the backlog, the company seems to have delivered on two key fronts. Slow-reduction in debt and high working capital remain key monitorables, but management expects these to be addressed in FY21. With a large chunk of its order backlog yet-to-get moving, the company not only has enough to fuel an execution ramp-up but is also insulated from any short-term awarding lull. Healthy execution capabilities, scope for a further execution ramp-up and a de-leveraging roadmap lead us to retain our Buy rating.

Covid-19 hitch. Execution has commenced at all sites, at a blended execution efficiency of ~60%. Labour continues to be an issue but is expected to be resolved by the monsoon-end. Thus, with H1 likely to bear the brunt of the pandemic, management is optimistic of H2 FY21.

Healthy order book; potential yet to be harnessed. With FY20 gross inflows of ~₹33bn, the company closed FY20 with an OB of ~₹71bn. The recent order addition insulates it from the any potential awarding lull, and with ~46% of OB yet to be taken up for execution, there is ample scope of an operational scale-up (mostly toward H2). Nevertheless, management looks to bag orders of ~₹35bn-40bn in FY21 (largely on the EPC format) and has already placed bids of over ₹17bn.

Working capital strained. While NWC days have improved by two y/y, to 80, they were high owing to the ~₹2.7bn pending receivables from the World-Bank-funded Rajasthan projects. Material recoveries on this front are expected in FY21, and would enable the company to de-lever.

Valuation. Adjusting for the pandemic impact, FY21e earnings are ~36% lower (~15% for FY22). Our sum-of-parts-based TP is revised from ₹404 to ₹311, derived using 8x FY22 construction EPS and investments at 0.8x of invested value. At the CMP, the stock (excl. investments) trades at 5.2x FY22e EPS. **Risk.** Prolonged Covid-19 impact.

Key financials (YE Mar)*	FY18	FY19	FY20P	FY21e	FY22e
Sales (₹ m)	13,927	20,098	21,961	22,797	29,458
Net profit (₹ m)	843	1,236	1,657	1,462	2,212
EPS (₹)	12.9	19.0	25.4	22.4	33.9
Growth (%)	31	47	34	-12	51
PE (x)	23.1	18.7	6.7	9.0	5.9
EV / EBITDA (x)	10.2	8.8	4.0	4.8	3.7
PBV (x)	3.6	2.8	1.4	1.4	1.1
RoE (%)	23.5	20.6	22.4	16.4	20.6
RoCE (%)	24.1	24.3	25.4	20.2	24.0
Net debt / equity (x)	0.3	0.4	0.3	0.3	0.3

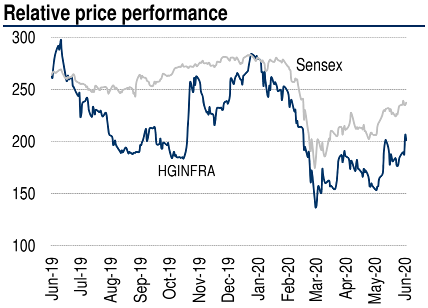
Source: Company, Anand Rathi Research ** Standalone financials* *P- Provisional*

Key data	HGINFRA IN / HGIN.BO
52-week high / low	₹303 / 126
Sensex / Nifty	35171 / 10383
3-m average volume	$0.1m
Market cap	₹13bn / $173.5m
Shares outstanding	65m

Shareholding pattern (%)	Mar-20	Dec-19	Sep-19
Promoters	74.0	73.9	73.9
- of which, Pledged	-	-	-
Free float	26.0	26.1	26.1
- Foreign institutions	0.4	0.5	0.5
- Domestic institutions	20.9	20.8	19.6
- Public	4.7	4.8	6.1

Estimates revision (%)	FY21e	FY22e
Sales	-20.1	-8.1
EBITDA	-24.3	-9.8
EPS	-36.4	-15.3

Relative price performance



Source: Bloomberg

Rachit R Kamath
Research Associate

Prem Khurana
Research Analyst

Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Order backlog	46,071	62,223	71,028	75,306	82,872
Order inflow	19,807	36,246	30,757	27,076	37,023
Net revenues	**13,927**	**20,098**	**21,961**	**22,797**	**29,458**
Growth (%)	*31.9*	*44.3*	*9.3*	*3.8*	*29.2*
Direct costs	10,937	15,585	17,064	17,941	23,124
SG&A	909	1,482	1,474	1,548	1,904
EBITDA	**2,081**	**3,032**	**3,424**	**3,309**	**4,430**
EBITDA margins (%)	*14.9*	*15.1*	*15.6*	*14.5*	*15.0*
Depreciation	539	755	756	860	939
Other income	47	115	137	107	119
Interest expenses	401	490	524	589	635
PBT	1,188	1,902	2,281	1,966	2,974
Effective tax rate (%)	*29.0*	*35.0*	*27.3*	*25.6*	*25.6*
+ Associates / (Minorities)	-	-	-	-	-
Net income	843	1,236	1,657	1,462	2,212
Adjusted income	843	1,236	1,657	1,462	2,212
WANS	65	65	65	65	65
FDEPS (₹ / sh)	12.9	19.0	25.4	22.4	33.9

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Share capital	652	652	652	652	652
Net worth	5,409	6,592	8,216	9,639	11,812
Debt	4,058	3,804	3,675	3,918	4,884
Minority interest	-	-	-	-	-
DTL / (Assets)	-61	-84	-87	-87	-87
Capital employed	**9,405**	**10,312**	**11,804**	**13,470**	**16,609**
Net tangible assets	4,119	4,619	4,824	4,464	4,525
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	86	-	111	58	116
Investments (strategic)	-	200	908	2,768	3,624
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	8,289	9,776	13,610	10,993	14,204
Cash	2,289	1,002	1,144	1,228	1,415
Current liabilities	5,378	5,285	8,794	6,041	7,275
Working capital	2,911	4,491	4,816	4,952	6,930
Capital deployed	**9,405**	**10,312**	**11,804**	**13,470**	**16,609**
Contingent liabilities*	32	32	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
PBT + Net interest expense	1,542	2,278	2,668	2,448	3,491
+ Non-cash items	539	755	756	860	939
Oper. prof. before WC	2,081	3,032	3,424	3,309	4,430
- Incr. / (decr.) in WC	1,669	1,579	325	136	1,978
Others incl. taxes	345	667	623	504	762
Operating cash-flow	66	786	2,475	2,669	1,690
- Capex (tang. + intang.)	2,693	1,169	1,073	447	1,058
Free cash-flow	-2,627	-383	1,402	2,222	632
Acquisitions					
- Div.(incl. buyback & taxes)	-	39	39	39	39
+ Equity raised	2,806	-	-	-	-
+ Debt raised	1,983	-277	-132	243	966
- Fin investments	-	200	708	1,860	856
- Net interest expense + misc.	355	388	381	482	517
Net cash-flow	1,807	-1,287	142	84	186

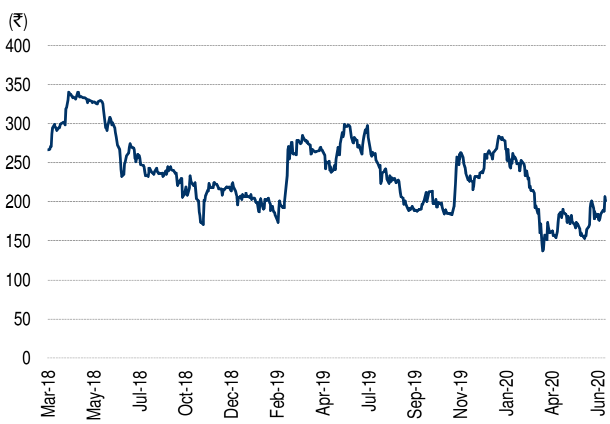
Source: Company, Anand Rathi Research *P- Provisional*

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
P/E (x)	23.1	18.7	6.7	9.0	5.9
EV / EBITDA (x)	10.2	8.8	4.0	4.8	3.7
EV / Sales (x)	1.5	1.3	0.6	0.7	0.6
P/B (x)	3.6	2.8	1.4	1.4	1.1
RoE (%)	23.5	20.6	22.4	16.4	20.6
RoCE (%)	24.1	24.3	25.4	20.2	24.0
RoIC (%)	21.7	18.9	20.4	16.6	19.6
DPS (₹ / sh)	-	0.6	0.6	0.6	0.6
Dividend yield (%)	-	0.2	0.4	0.3	0.3
Dividend payout (%) - incl. DDT	-	3.2	2.4	2.7	1.8
Net debt / equity (x)	0.3	0.4	0.3	0.3	0.3
Receivables (days)	166	142	193	140	140
Inventory (days)	28	21	18	21	21
Payables (days)	86	73	103	65	62
CFO : PAT %	7.9	63.6	149.4	182.5	76.4

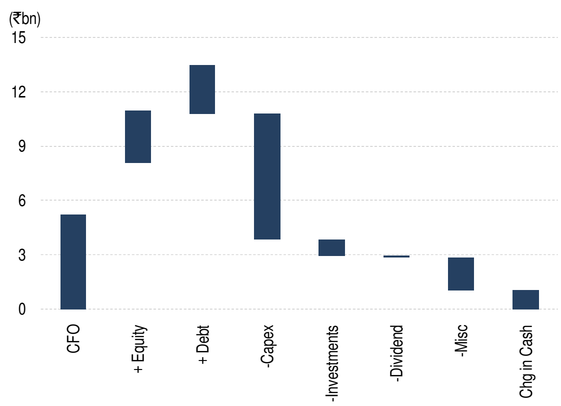
Source: Company, Anand Rathi Research **excl. performance guarantees*

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Cumulative capital allocation: FY13 – F20



Source: Company

Result / Concall Highlights

Income statement

- **NCR drives Q4 revenue growth.** The ~7% y/y revenue growth is ordinary, and appears to be failing to do justice to the strong, ~₹62bn, opening OB. However, the opening OB included a number of orders that have yet to start moving. Besides, there was the Covid-induced disruption. Adjusting for these, Q4 revenue performance is re-assuring.
  - Management highlights that Q4 revenues could have been ~₹1bn more were it not for Covid-19. This additional revenue would have implied strong, ~25% y/y, revenue growth.
  - The NCR projects contributed ~60% to the quarter's revenues.
  - For FY20, too, ~9% y/y revenue growth seems respectable considering the year being affected by the monsoon, delayed appointed dates, the 40-day NCR construction ban in Q3 and Covid-19 in Q4.
- **EBITDA margin, at its single-quarter best.** A ~52 bp y/y higher gross margin helped the EBITDA margin expand ~21bps y/y to ~16.3%. Consequently, EBITDA growth (at ~9% y/y) outpaced revenue growth.
  - The recorded Q4 margin was slightly ahead of the upper-end of the guided-to range of 15-16%.
  - For FY20, absolute EBITDA growth (~13% y/y to ~₹3.4bn) outpaced the ~9% y/y revenue growth. The FY20 margin of ~15.6% (up ~50bps y/y) was well within management guidance.

Fig 7 – Financial highlights

(₹m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q	FY19	FY20	% Y/Y
Sales	4,502	4,291	5,506	5,800	5,261	4,742	5,730	6,229	*7.4*	*8.7*	20,098	21,961	*9.3*
EBITDA	671	623	806	932	795	733	882	1,014	*8.8*	*15.0*	3,032	3,424	*12.9*
EBITDA margin (%)	*14.9*	*14.5*	*14.6*	*16.1*	*15.1*	*15.5*	*15.4*	*16.3*	*21bps*	*89bps*	*15.1*	*15.6*	*50bps*
Interest	115	96	115	164	123	108	135	159	*-3.4*	*17.8*	490	524	*6.8*
Depreciation	175	177	200	203	176	181	191	208	*2.7*	*9.2*	755	756	*0.2*
Other income	31	30	32	23	31	29	39	38	*63.9*	*-2.2*	115	137	*18.5*
PBT	411	379	523	588	527	474	595	685	*16.4*	*15.1*	1,902	2,281	*19.9*
Tax	141	134	171	221	183	88	180	172	*-21.9*	*-4.0*	667	623	*-6.5*
PAT	270	246	352	367	344	386	415	513	*39.5*	*23.5*	1,236	1,657	*34.1*
EPS (₹)	4.1	3.8	5.4	5.6	5.3	5.9	6.4	7.9	*39.5*	*23.5*	19.0	25.4	*34.1*

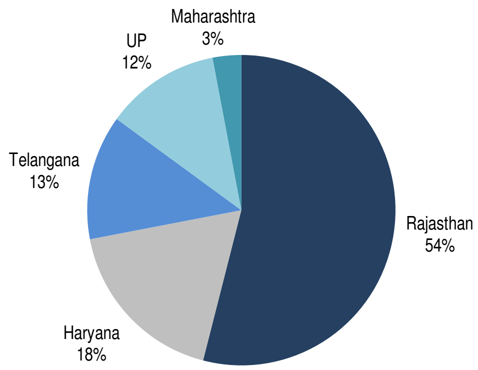
Source: Company

- **Strong earnings growth supported by shift to new tax regime.** Q4 earnings, at ~₹0.5bn up ~39% y/y, were largely the result of the lower effective tax rate (~25%, against ~38% a year ago) on shifting to the newer tax regime. Besides tax, the contained rise in depreciation and lower finance costs aided Q4 earnings growth.
  - FY20 earnings were up ~34% y/y to ~₹1.7bn, boosted by higher other income and the lower effective tax rate (~27%, vs ~35% in FY19).

Order backlog and scope

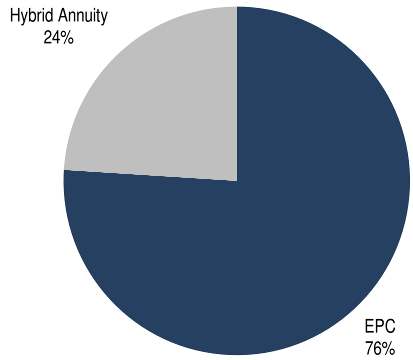
- Despite the slower floating of bids by the authorities in Q4, the company bagged two large EPC orders from the NHAI. Combined, these entail a cumulative EPC value of ~₹20bn (excl. GST), and mostly met its guidance (of ~₹20bn-25bn inflows in Q4). With these two, FY20 order addition was ~₹33bn.
    - During the year (mostly in Q4), management effected adjustments for GST, change in scope and removed a couple of orders from its order backlog (on project-specific issues). Adjusting for these, net additions during the year were ~₹31bn.
- Despite the two order exclusions, strong Q4 inflows not only offset these but also exceeded the quarter's execution. Consequently, the end-FY20 OB stood augmented by ~₹9.4bn q/q to ~₹71bn, providing healthy assurance of ~3.2x FY20 revenues.
    - Of the ~₹71bn executable order backlog, we estimate orders of ~₹33bn (~46% of the backlog) yet await appointed dates.

Fig 8 –Q4 inflows make Rajasthan take the lion's share in OB



Source: Company Note - of the total executable order backlog of ~₹62bn

Fig 9 – OB, ~₹71bn; EPC, the mainstay



Source: Company

- Per management, the highways sector and infrastructure development remain in focus. It said that the authorities are likely to soon invite bids for projects of ~₹700bn.
    - Most of these bids would comprise projects that were earlier scheduled to come through in Q4 but were delayed by the lockdown due to the Covid-19 pandemic. It sees the authorities adding more opportunities during the year.
    - Currently, the company waits bid-openings for three NHAI EPC projects of ~₹3bn each, two RVNL projects of combined value ~₹7bn and a MoRTH road project of ~₹1.5bn.
    - For FY21, the company looks to add orders of ~₹35bn-40bn, such that the share of hybrid annuity projects in its order book does not exceed ~25%. This is in line with its long-term strategy of its preference for EPC projects.
- On diversification, the company is now looking to pursue water-supply opportunities besides opportunities in railways.
- Speaking on the widened gap between the bank-rate and the MCLR, management said concessionaires are likely to slow bidding for hybrid annuity projects as the risk-return profile is unfavourable at this juncture.

  - Management thus expects the authorities to push for more orders on the EPC mode.
  - Also, future bids on the hybrid annuity model may likely see more concessionaires building in wider safety margins to guard against other unforeseeable circumstances.

Project updates

- **The Mopa airport project (Goa).** For this ~₹2bn airport runway project, the Supreme Court had (on 20th Jan'20) lifted its suspension of an environmental clearance. That paved the way for the project to get going. However, keeping in mind the current state of affairs (labour availability and supply-chain management normalising) and that the project has already been delayed (re-calculating cost estimates), management thought it fit to forgo the order, which was removed from the OB in Q4.
- **The Maharashtra MoRTH projects.** Despite nearing completion status for this originally ~₹19bn order, land has not yet been made available for a part of the project with estimated EPC value of ~₹2.3bn. Sensing further delay, it has temporarily removed it from its OB, and intends to deal with it as a supplementary order (when land is made available).
  - Adjusting for this removal and work already executed, ~₹2.5bn of work was pending execution on 31st Mar'20.
  - PCOD has already been applied for a large part of the project, and is expected in a month of two.
- **The Jodhpur (WorldBank-funded) projects.** The company looks to complete this ~₹6bn Rajasthan PWD project by Sep-Oct'20, barring ~₹0.7bn of works for which the RoW is not yet available.
  - At end-FY20, it had already executed works of ~₹4.3bn (up from ~₹3.5bn the quarter prior) and had pending works of ~₹1bn. Subsequent to Q4, it has executed work of another ~₹0.6bn, implying pending works of ~₹0.4bn, which it plans to execute by Sep-Oct'20.
  - The project is key to the company's protracted debtor days, with outstanding receivables of ~₹2.7bn at end-FY20 (up from ~₹2.1bn sequentially).
  - While management received payments of ~₹0.6bn post-Q4, the current outstanding receivables are still at end-FY20 levels (of ~₹2.7bn) on account of the post-Q4 execution of ~₹0.6bn.
  - Management said the ADB-funded projects were sanctioned a budget of ~₹4.5bn, which the state government looks to utilise to settle all pending dues. The company expects to receive ~₹2bn by end-H1 FY21 and settle all dues by end-FY21.
  - For the ~₹0.7bn of works that are stuck on RoW issues, it would execute them when the authority provides the requisite land.
  - Despite the delayed payments, management continues execution at the project in order to maintain the margin envisaged for the project as well as to avoid the process of mobilising the project again and again, when payments come through.
- **Pending older sub-contracted works.** On its two contiguous sub-contracted packages (Chittogarh-Gulabpura from IRB and Udaigarh-

Chittogarh from Tata Projects), it has pending works of ~₹1.6bn (~₹0.3bn for the former, the balance for the latter). It aims to complete these by Q2 FY21.

- **The Delhi-Vadodara Package-IV.** Execution at the ~₹10bn EPC project is progressing smoothly. The project has attained ~24% physical progress, up from ~7% a quarter prior. It had balance works of ~₹7.3bn at end-FY20.
- **The Delhi-Vadodara Packages (VIII and IX).** On its recent Q4 wins, management said packages VIII and IX have RoW of ~48% and ~56% respectively. Both are expected to have over 90% RoW in the next three months. The company signed the concession agreement for Package VIII on 19th Jun'20. It expects to commence execution at one project (on receipt of the appointed date) in Sep'20 and at the other in Oct'20.
- **The Adani order.** It has commenced resource mobilisation and pre-construction activity at this ~₹9.5bn sub-contracting order in Telangana. It expects to commence construction by Aug'20. Adani Transport had earlier submitted financing documents to the NHAI. On RoW, management said the project has ~82% RoW.
- **The Hapur-Moradabad project.** An ~₹11.7bn sub-contracting order from IRB Infra has attained ~23% physical progress, up from ~14% a quarter ago, on the steady pace of execution. The project had execution potential of ~₹9.7bn at end-FY20.
- **The Gurgaon-Sohna project.** By Q4 FY20, the project attained ~55% physical progress, up from ~40% a quarter back and ahead of its earlier targeted ~50% physical progress by end-FY20. Currently, (in late-Jun'20) physical progress has reached ~58%. Management alludes to Covid-19 disrupting an even stronger execution pace at the project.
  - The company infused another ~₹110m in the project during Q4, taking cumulative infusions to ~₹525m. It seeks to infuse the balance equity (pegged at ~₹196m) in FY21.

Fig 10 – Hybrid annuity details at a glance

Particulars	Gurgaon-Sohna / Rajeev Chowk	Rewari-Ateli-Mandi	Narnaul Bypass	Rewari Bypass
Project length (km)	12.7	30.4	40.8	14.4
Award date	6th Mar'18	10th Jan'19	25th Feb'19	26th Dec'19
Financial closure	Achieved	Achieved	Achieved	Awaited
Appointed date	1st Feb'19	14th Jan'19	28th Feb'20	Expected in Oct'20
Construction period (years)	2.5	2	2.5	2
Current status (progress at end-FY20)	Under construction (~55% physical progress)	Under construction (~26% physical progress)	Under construction (~17% physical progress)	In-process of attaining financial closure
Concession period after COD	15 years	15 years	15 years	15 years
Bid project cost (₹ m)	6,060	5,800	9,521	5,220
Means of finance				
NHAI (₹ m)	2,420	2,320	3,808	Post-concession signing
Debt (₹ m)	2,879	2,200	4,060	
Equity (₹ m)	720	765	1,380	
O&M cost (first year) (₹ m)	40	60	50	50

Source: Company

- **The Rewari-Ateli-Mandi project.** Despite its Jan'20 appointed date, the project has already attained ~26% physical progress.
  - Equity of ~₹382m has already been infused. Management expects to infuse a large part of the pending equity in FY21.
- **The Narnaul-bypass project.** Having received a Feb'20 appointed date, the project has already attained ~17% physical progress. Management expects this project to contribute strongly in FY21.
  - In Q4, the company infused ~₹1.5m in the project SPV. Subsequently (in Apr'20), it infused another ~₹550m, originally expected by end-FY20, but delayed slightly by the lockdown.
- **The Rewari Bypass project.** Having signed the concession agreement on 19th Jun'20, the company has already applied for financial closure and expects in-principal approval in the next ~45 days. On RoW, management expects to have the required land to commence execution by Sep'20 and pegs the RoW at 60%+. It expects an appointed date in Oct'20 and to commence execution then.
- **Equity infusion schedule for hybrid annuity projects.** Against its total equity required (pegged at ~₹3.6bn), it infused ~₹0.7bn equity in FY20 to take cumulative investments to ~₹0.9bn.
  - It seeks to infuse ~₹1.9bn in FY21 and ~₹0.7bn in FY22.

Balance sheet

- **Net debt up.** The company closed FY20 with net debt of ~₹2.5bn, up ~₹1bn q/q on account of equity required in the hybrid annuity SPVs, capex and working capital.
  - The 31st Mar'20 gross debt of ~₹3.7bn, up ~₹0.5bn q/q, comprised working-capital loans of ~₹0.7bn, promoters' interest-free loans of ~₹0.5bn (down ~₹70m q/q) and term loans and current maturities. The gross debt primarily rose on account of ~₹0.3bn-0.35bn capex earlier targeted for FY21 (advance acquisition of BS VI-compliant tippers in Q4).
  - Management missed its FY20 guidance of closing gross debt at ~₹2.8bn. It attributes this to additional capex, and receivable discounting loan of ~₹0.7bn.
  - Cash & equivalents were down ~₹0.5bn sequentially, implying funding needs were partly addressed by utilising its own cash and equivalents.
  - End-FY20 net-debt-to-equity was ~0.3x, against ~0.2x at end-Q3.
- **Consol debt rose on SPV draw-downs.** Consolidated gross debt at end-FY20 of ~₹5.2bn was up ~₹1.4bn y/y, largely on account of the hybrid annuity SPV drawing down debt.
  - The consolidated gross debt comprised standalone debt of ~₹3.7bn and project debt of ~₹1.5bn.
  - Of the project debt on 31st Mar'20, ~₹1.4bn is attributable to the Gurgaon-Sohna hybrid annuity asset and the balance to the Rewari-Ateli-Mandi hybrid annuity project.
- During the quarter, the company availed of net mobilisation advances of ~₹0.8bn, taking outstanding mobilisation advances at end-FY20 to ~₹2.1bn. It has scope to draw another ~₹3.3bn of mobilisation advances, largely from four yet-to-be appointed projects.

- There has been a steep jump in mobilisation advances, up ~₹1.2bn y/y. Management attributes this to some adjustments yet to be made on bills raised (reflected in unbilled revenues).
- Management said final adjustments to be made (on account of change-in-scope, GST adjustments, etc.) were for ~5 projects last year, and now for ~10 projects. It has already completed most of these and expects the final bills to be settled soon; accordingly these advances would be adjusted.

- End-FY20 NWC days (while still protracted when compared to the past), at 80, seem to have slightly contracted y/y (by 2 days) as well as over H1 (by 3 days). However, the composition has drastically altered.
  - Debtor days (incl. unbilled receivables) are up 51 days from a year ago, to 193. Management attributed this increase to a single-project namely its Jodhpur WorldBank-funded projects, where outstanding debtors at end-FY20 were ~₹2.7bn.
  - Recovery of the receivables at the Jodhpur WorldBank-funded projects is key for the company to bring its working capital back on track from these elevated levels.
  - During FY20, it provided for debtors amounting to ~₹145m pertaining to the GVK group, for a project executed in Ajmer in 2016.
- Management said it has unutilised non-fund based limits of ~₹0.8bn and seeks to enhance its non-fund based limits by ~₹1.3bn in Jul/Aug'20, to ~₹9.8bn.

Guidance

- On the pandemic-led loss of man-days, lower execution efficiencies in H1 and other unascertainable factors, management shied away from giving revenue guidance. Nevertheless, it expects to get a better handle, hopefully by end-Q2, and may then provide more clarity.
- With FY20 inflows at ~₹33bn, it seeks to bag orders of ~₹35bn-40bn in FY21, with more focus on EPC orders.
- For FY21, it doesn't see material capex needs beyond ~₹0.4bn-0.5bn as it envisages Q4 capex to suffice for much of its needs besides some equipment being freed up from certain projects.
- While it missed delivery on its ~₹2.8bn debt-guidance for a second year in a row, it was within touching distance of the guidance were one to exclude the trade receivable discounting debt. For FY21, it envisages debt not to rise beyond ~₹3bn (if it recovers the Rajasthan receivables).

Other highlights

- **Execution in the Covid-19 context.** Like its peers, HG Infra too was impacted by the outbreak of the Covid-19 pandemic and the resultant lockdown, dampening its execution pace in late-Mar'20. With the gradual easing of restrictions, operations have slowly recommenced at all its sites.
  - With the gradual easing of the lockdown, management commenced execution at its sites gradually from late-Apr/early-May'20, effectively losing a month in Q1.

- At the time of the initial resumption, management faced certain issues owing to a disrupted supply-chain and non-availability of labour, among others.
- Currently, as execution has commenced at all its sites, management claims labour capacity at ~50-70% and blended execution efficiency at ~60%.
- Thus, it continues to face issues of non-availability of labour. Besides their non-availability, paucity of skilled labour is also a challenge.
- Nevertheless, management expects labour to return to the sites and expects ~85% capacity in a month. It said labourers from Uttar Pradesh, Jharkhand and Chhattisgarh are gradually returning. It expects normalcy on the labour front by the end of the monsoon season and commence normalising the execution pace from Q3.
- While the company has refrained from availing of the moratorium announced by the RBI, it seeks other relief measures announced by the government.
- Management said it has already applied to the clients for release of BGs and retention money to the extent of works executed. Some clarity was required on this front, management indicated, which came recently. Management sees potential to recover to the extent of ~₹1.8bn on this front.
- Its under-construction hybrid annuity assets are raising bills monthly, against the earlier milestone-based payments cycle.

Monetisation of hybrid annuity projects. Management said that till Jan'20 it had discussions about monetising its hybrid annuity assets. It, however, decided to complete a couple of hybrid annuity projects and then unlock value through monetisation.

- In view of the current circumstances, it has decided to let the environment normalise before monetisation.
- It, however, seeks to re-commence negotiations with investors from Nov'20.

Valuation

Owing to pandemic-determined circumstances, the company is likely to lose man-days in FY21. We see a part of this spilling over to FY22. Accordingly, we lower our FY21e and FY22e revenues respectively ~20% and ~8%. To give effect to the negative operating leverage on under-absorption of fixed costs, we slightly lower our FY21e and FY22e margins respectively 80bps and 28bps. The lower operating profitability and negative financial leverage lead to ~36% lower earnings in FY21. For FY22, earnings would be down ~15%.

Mindful of the altered risk profile, we lower the PE valuation multiple for the EPC business to 8x, from 9x earlier.

Our revised sum-of-parts-based target price is derived using an 8x PE multiple for FY22e construction earnings (₹272 a share) and hybrid annuity assets at a 20% discount. The per-share target price works out to ₹311 (against ₹404 earlier).

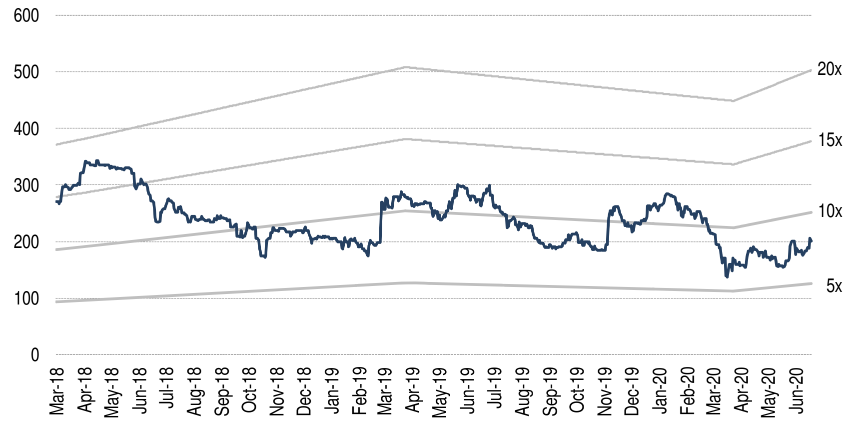
At the ruling price, (excl. investments) the stock trades at PER of 7.8x FY21e and 5.2x FY22e.

Fig 11 – Change in estimates

(₹ m)	Old		Revised		% change	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	28,546	32,070	22,797	29,458	-20.1	-8.1
EBITDA	4,371	4,913	3,309	4,430	-24.3	-9.8
EPS (₹)	35.3	40.1	22.4	33.9	-36.4	-15.3

Source: Anand Rathi Research

Fig 12 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Any prolonged impact from Covid-19.
- Any significantly slower-than-expected execution.
- Working-capital deterioration.

Appendix

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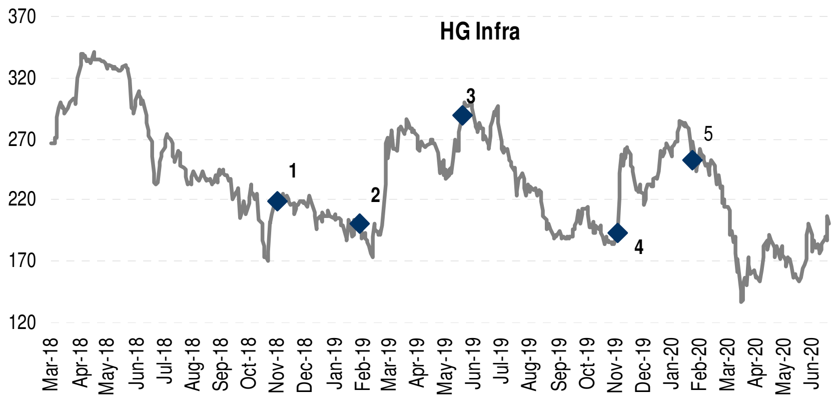
Rating and Target Price History (as of 27 June 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	09-Nov-18	Buy	274	219
2	05-Feb-19	Buy	294	206
3	27-May-19	Buy	374	292
4	11-Nov-19	Buy	377	194
5	30-Jan-20	Buy	404	267

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