India I Equities

Infrastructure

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

19 August 2020

H G Infra Engineering

Normalcy expected shortly, WC remains a key monitorable; Buy

Rating: **Buy**

Target Price: ₹291

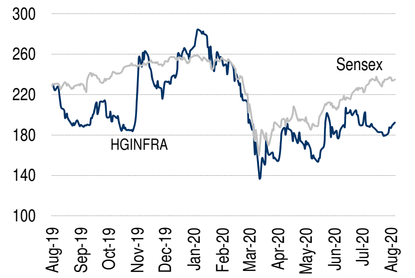
Share Price: ₹192

Key data	HGINFRA IN / HGIN.BO
52-week high / low	₹295 / 126
Sensex / Nifty	38528 / 11385
3-m average volume	$0.1m
Market cap	₹13bn / $167.5m
Shares outstanding	65m

Shareholding pattern (%)	Jun-20	Mar-20	Dec-19
Promoters	74.0	74.0	73.9
- *of which, Pledged*	-	-	-
Free float	26.0	26.0	26.1
- Foreign institutions	0.4	0.4	0.5
- Domestic institutions	20.6	20.9	20.8
- Public	4.9	4.7	4.8

Estimates revision (%)	FY21e	FY22e
Sales	-8.1	-7.2
EBITDA	-2.7	-6.5
EPS	-2.5	-7.5

Relative price performance



Source: Bloomberg

Considering the Covid-compelled disruptions and lower effective under-execution OB, HG Infra's Q1 income statement is comforting. While there were no inflows, its existing OB provides ample assurance but a part of it has yet to be appointed. Besides, the opportunity pipeline is reassuring. Recent protraction in the working capital (consequently, higher debt) is the key monitorable, but management sees this as temporary, and expects it to return to normal by end-FY21. Its proven execution capabilities, healthy revenue assurance and scope for a further execution ramp-up lead us to retain our Buy rating with a lower TP of ₹291 from ₹311 earlier.

Current ground view. Execution has commenced at all its sites, at ~70-80% blended execution efficiency (up from ~60% in late-Jun'20). Full-restoration of the workforce (labour availability now ~80-85%, up from ~50-70% in late-Jun'20) is expected by Q3, and more projects seem set to turn contributing in the next two quarters. Hence, H2 is expected to be considerably better than H1.

Healthy order book; potential yet to be harnessed. The end-Q1 OB at ~₹68bn provides healthy assurance of ~3.5x TTM revenues. With ~48% of the OB yet to be taken up for execution, ample scope exists for operational scale-up (mostly toward H2). Management seeks to add orders of ~₹35bn-40bn in FY21 (largely on the EPC format) to bolster revenue assurance.

Receivables, key to protracted WC cycle. The longer working-capital cycle is largely a result of ~₹2.7bn pending receivables from World-Bank-funded Rajasthan projects and pending dues from some private orders (estimated at ~₹3bn). Management expects to realise a large part of this in coming quarters and, thus, seeks to reduce end-Q1 ~₹3.8bn gross debt to ~₹3.1bn by end-FY21.

Valuation. To account for the protracted WC cycle, and as we prune the contribution from the yet-to-be appointed sub-contracted hybrid annuity project from Adani, our FY21e earnings are ~3% lower, and ~8% for FY22. On our revised estimates, the stock (excl. investments) trades at 5.3x FY22e EPS. **Risk.** Prolonged Covid-19 impact.

Key financials (YE Mar)*	FY18	FY19	FY20P	FY21e	FY22e
Sales (₹ m)	13,927	20,098	21,961	20,957	27,342
Net profit (₹ m)	843	1,236	1,657	1,426	2,047
EPS (₹)	12.9	19.0	25.4	21.9	31.4
Growth (%)	30.9	46.6	34.1	-13.9	43.5
PE (x)	23.1	18.7	6.7	8.8	6.1
EV / EBITDA (x)	10.2	8.8	4.0	4.7	3.8
PBV (x)	3.6	2.8	1.4	1.3	1.1
RoE (%)	23.5	20.6	22.4	16.0	19.3
RoCE (%)	24.1	24.3	25.4	19.9	23.0
Net debt / equity (x)	0.3	0.4	0.3	0.3	0.3

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

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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	74,938	81,869
Order inflow	19,807	36,246	30,757	24,867	34,273
Net revenues	**13,927**	**20,098**	**21,961**	**20,957**	**27,342**
Growth (%)	*31.9*	*44.3*	*9.3*	*-4.6*	*30.5*
Direct costs	10,937	15,585	17,064	16,189	21,327
SG&A	909	1,482	1,474	1,548	1,872
EBITDA	**2,081**	**3,032**	**3,424**	**3,220**	**4,143**
EBITDA margins (%)	*14.9*	*15.1*	*15.6*	*15.4*	*15.2*
Depreciation	539	755	756	833	909
Other income	47	115	137	107	114
Interest expenses	401	490	524	577	596
PBT	1,188	1,902	2,281	1,918	2,752
Effective tax rate (%)	*29.0*	*35.0*	*27.3*	*25.6*	*25.6*
+ Associates / (Minorities)	-	-	-	-	-
Net income	843	1,236	1,657	1,426	2,047
Adjusted income	843	1,236	1,657	1,426	2,047
WANS	65	65	65	65	65
FDEPS (₹ / sh)	12.9	19.0	25.4	21.9	31.4

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	9,603	11,611
Debt	4,058	3,804	3,675	3,716	4,409
Minority interest	-	-	-	-	-
DTL / (Assets)	-61	-84	-87	-87	-87
Capital employed	**9,405**	**10,312**	**11,804**	**13,232**	**15,934**
Net tangible assets	4,119	4,619	4,824	4,541	4,583
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	86	-	111	64	110
Investments (strategic)	-	200	908	2,768	3,624
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	8,289	9,776	13,610	11,828	14,308
Cash	2,289	1,002	1,144	1,133	1,134
Current liabilities	5,378	5,285	8,794	7,103	7,825
Working capital	2,911	4,491	4,816	4,725	6,483
Capital deployed	**9,405**	**10,312**	**11,804**	**13,232**	**15,934**
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	2,387	3,234
+ Non-cash items	539	755	756	833	909
Oper. prof. before WC	2,081	3,032	3,424	3,220	4,143
- Incr. / (decr.) in WC	1,669	1,579	325	-91	1,758
Others incl. taxes	345	667	623	491	705
Operating cash-flow	66	786	2,475	2,819	1,680
- Capex (tang. + intang.)	2,693	1,169	1,073	502	996
Free cash-flow	-2,627	-383	1,402	2,317	684
Acquisitions					
- Div.(incl. buyback & taxes)	-	39	39	39	39
+ Equity raised	2,806	-	-	-	-
+ Debt raised	1,983	-277	-132	41	694
- Fin investments	-	200	708	1,860	856
- Net interest expense + misc.	355	388	381	470	482
Net cash-flow	1,807	-1,287	142	-11	1

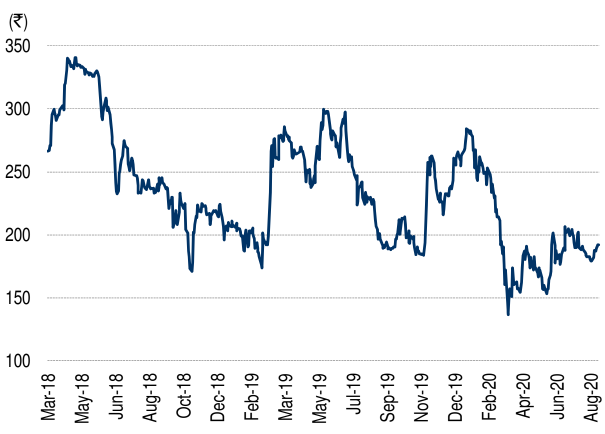
Source: Company, Anand Rathi Research P- Provisional

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
P/E (x)	23.1	18.7	6.7	8.8	6.1
EV / EBITDA (x)	10.2	8.8	4.0	4.7	3.8
EV / Sales (x)	1.5	1.3	0.6	0.7	0.6
P/B (x)	3.6	2.8	1.4	1.3	1.1
RoE (%)	23.5	20.6	22.4	16.0	19.3
RoCE (%)	24.1	24.3	25.4	19.9	23.0
RoIC (%)	21.7	18.9	20.4	16.3	18.5
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	1.9
Net debt / equity (x)	0.3	0.4	0.3	0.3	0.3
Receivables (days)	166	142	193	170	155
Inventory (days)	28	21	18	21	21
Payables (days)	86	73	103	90	75
CFO : PAT %	7.9	63.6	149.4	197.7	82.1

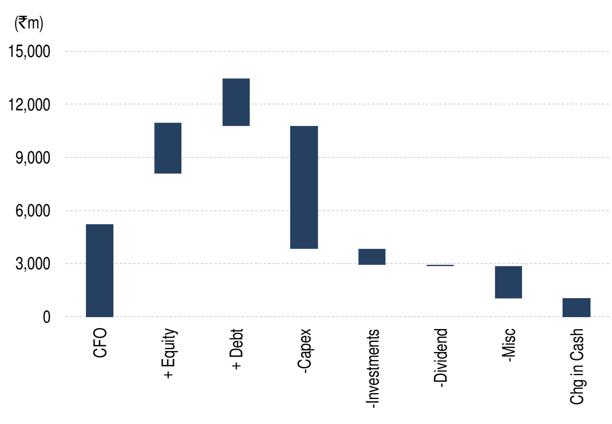
*Source: Company, Anand Rathi Research *excl. performance guarantees*

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Cumulative capital allocation: FY13 – F20P



Source: Company

Result / Concall Highlights

Income statement

- **Covid impacts Q1 but performance still assuring.** Though revenue from operations was down ~43% y/y to ~₹3bn, the performance is reassuring as it came against the backdrop of Covid-related issues: lockdown for most of Apr'20, labour subsequently (availability only ~50-70% toward late-Jun'20).
  - The revenues are also comforting as ~₹33bn of the ~₹71bn opening OB have yet to attain appointed dates, effectively rendering the effective under-execution OB to ~₹38bn to look for revenues (in Q1).
  - The NCR projects are estimated to have contributed over ~50% of the quarter's revenues.
- **EBITDA margin, its single-quarter best.** Led by a ~389bp expansion in the gross margins, the EBITDA margin expanded ~138bps y/y to ~16.5%. Consequently, the absolute EBITDA decline, at ~38% y/y, was less pronounced than the ~43% y/y revenue decline.
  - The recorded Q1 margin was in line with the slightly raised guided-to range of 15-16.5% (earlier ~15-16%).
  - Management attributed the rise in margins to the average upsizing of orders.
  - The lower expansion in the EBITDA margin despite the sturdy gross margin is attributable to under-absorption of fixed costs due to the lower scale of operations (on constrained execution) during the quarter.

Fig 7 – Financial highlights

(₹m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Sales	4,502	4,291	5,506	5,800	5,261	4,742	5,730	6,229	2,979	-43.4	-52.2
EBITDA	671	623	806	932	795	733	882	1,014	491	-38.2	-51.5
EBITDA margin (%)	14.9	14.5	14.6	16.1	15.1	15.5	15.4	16.3	16.5	138bps	21bps
Interest	115	96	115	164	123	108	135	159	122	-0.8	-23.2
Depreciation	175	177	200	203	176	181	191	208	195	10.6	-6.5
Other income	31	30	32	23	31	29	39	38	27	-13.2	-30.0
PBT	411	379	523	588	527	474	595	685	201	-61.8	-70.6
Tax	141	134	171	221	183	88	180	172	50	-72.4	-70.7
PAT	270	246	352	367	344	386	415	513	151	-56.1	-70.6
EPS (₹)	4.1	3.8	5.4	5.6	5.3	5.9	6.4	7.9	2.3	-56.1	-70.6

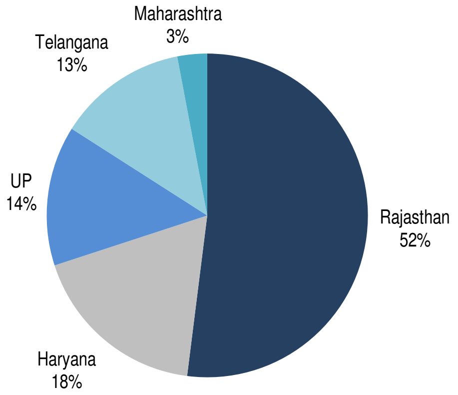
Source: Company

- **Earnings supported by new tax regime.** The weak reported operating profitability (down ~38% y/y) coupled with higher depreciation (up on capex incurred last year) and lower other income led to the company reporting ~56% y/y lower earnings, of ~₹151m.
  - The earnings decline would have been steeper had it not been for the lower effective tax rate (~25%, against ~35% a year ago) on shifting to the newer tax regime.

Order backlog and scope

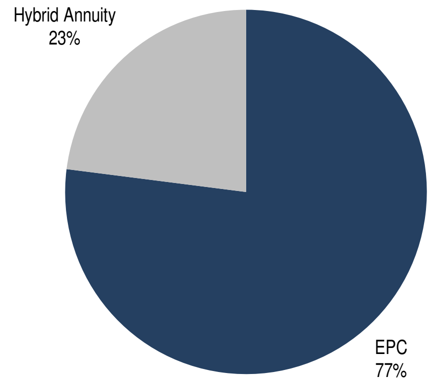
- Despite having placed bids on nine-ten EPC projects and four hybrid annuities, the company had no inflows during the quarter. Of these bids, management said opening of bids for two projects each in EPC and hybrid annuity are pending.
- With no inflows to cushion the quarter's execution, the order book declined ~₹2.7bn q/q to ~₹68.3bn. The sturdier assurance of ~3.5x TTM revenues despite the OB declining sequentially is attributable to slower revenues booked during Q1, on the constrained pace of execution.
  - Of the ~₹68.3bn executable order backlog, we estimate orders of ~₹33bn (~48% of the backlog) yet await appointed dates.
  - Management said that barring the not-yet-appointed projects, the balance OB entails a ~15-20 month execution timeline.

Fig 8 – OB – Rajasthan dominance continues



Source: Company Note - of the total executable order backlog of ~₹68bn

Fig 9 – End-Q1 OB @ ~₹68bn; EPC, the mainstay



Source: Company

- With infrastructure development the government's key focus to revive the economy, the company sees ample opportunities in the highways sector across India.
  - On the road EPC front, management envisages bidding for seven NHAI projects in the NCR, providing a ~₹70bn cumulative opportunity. Besides these, management also sees pending potential of ~₹30bn from the Delhi-Vadodara stretch (in Gujarat).
  - Spread over many states (Haryana, Punjab, Gujarat), the company intends to bid for seven hybrid annuity projects, with ~₹70bn aggregate potential. However, for FY21, management is open to adding hybrid annuity project/s with EPC potential of ~₹10bn.
  - For FY21, the company retained its guidance of adding 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 preference for EPC projects.
  - On new stretches likely to come up for bidding, management added that the NHAI has completed the DPR preparation of the Delhi-Amritsar-Katra Expressway and bids are expected to be invited somewhere around Dec'20. On opportunities from state governments, it says the UPEIDA has completed preparations for the Ganga Expressway project and bids are likely to be invited in Q3/Q4 FY21.

- Management commented that in the recent past competitive intensity has increased for EPC opportunities, largely on account of aggressive bidding by a few participants. Not bogged down by failure with its recent bids, it does not intend to lower its margin/return thresholds to capture orders. It is looking at various EPC opportunities but would be very selective when it comes to hybrid annuity opportunities.
- On diversification, the company is looking at opportunities in railways. However, no material opportunity has yet been identified. It added that it has no immediate plans to take up any sub-contracting orders.
- On participating for the modified BOT-toll projects, it said it has no interest in participating in them.

Project updates

- **The Jodhpur (WorldBank-funded) projects.** The company looks to complete this ~₹6bn Rajasthan PWD project in Q2, barring the ~₹0.6bn works for which RoW is not yet available.
  - At end-Q1, it had already executed works of ~₹4.6bn (up from ~₹4.3bn the quarter prior) and has pending works of ~₹0.8bn (targeted to be completed by end-Q2).
  - Management had earlier said the WorldBank-funded projects were sanctioned a budget of ~₹4.5bn, which the state government looks to utilise to settle all pending dues. Of these, the company received ~₹0.6bn in Jun'20, and expects to receive another ~₹0.8bn-1bn in Q2 and that all pending dues would be settled by end-FY21.
  - The project's pending receivables at end-Q1 was ~₹2.1bn. Besides this, it has works of ~₹0.6bn not yet certified (certified post-Q1).
  - For the ~₹0.6bn of works stuck on RoW issues, it would execute them when the authority provides the requisite land.
- **The Delhi-Vadodara Package-IV.** Execution at this ~₹10bn EPC project is progressing smoothly. The project has attained ~33% physical progress, up from ~24% a quarter prior. It had balance works of ~₹6.9bn at end-Q1 FY21.
- **The Delhi-Vadodara Packages (VIII and IX).** On its recent Q4 wins, management said packages VIII and IX have RoWs between ~65-70%. It expects to commence execution at one project (Package VIII) in Sep'20 and at the other in Oct'20. It added it has already signed the EPC agreement for both these projects.
- **The Adani order.** Having already mobilised the site at this ~₹9.5bn sub-contracting order in Telangana, management expects to take an appointed date shortly and commence execution.
- **The Hapur-Moradabad project.** An ~₹11.7bn sub-contracting order from IRB Infra has attained ~28% physical progress, up from ~23% a quarter ago. The project had balance execution potential of ~₹9.4bn at end-Q1.
- **The Gurgaon-Sohna project.** By end-Q1, this project had attained ~58% physical progress, up from ~55% a quarter back. Currently (mid-Aug'20), physical progress has hit ~60%.
  - The cumulative equity infused in this project is pegged at ~₹525m, flat q/q. The project has pending equity needs of ~₹205m. A large part of the balance (~₹150m) is expected to be infused 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-Q1 FY21)	Under construction (~58% physical progress)	Under construction (~28% physical progress)	Under construction (~20% 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)	2,424	2,320	3,808	2,088
Debt (₹ m)	2,879	2,270	4,060	2,200*
Equity (₹ m)	729	765	1,380	671*
O&M cost (first year) (₹ m)	40	60	50	50

*Source: Company * subject to receipt of approval from the financiers as well as from the NHAI*

- **The Rewari-Ateli-Mandi project.** At end-Q1 FY21, this project had attained ~28% physical progress (up from ~25% a quarter back).
  - At end-Q1, cumulative equity infused was ~₹382m (flat q/q), implying no fresh infusions in Q1. A large part of the balance equity (pegged at ~₹250m, of ~₹383m) is expected to be infused by end-FY21.
- **The Narnaul-Bypass project.** Cumulative progress at this project was ~20% at end-Q1, up from ~14% a quarter back and ~17% in late-Jun'20.
  - The company infused ~₹550m as equity during the quarter.
  - Post-Q1, it infused another ~₹264m, implying cumulative equity invested of ~₹815m; balance to be invested: ~₹565m.
  - Of this, management envisages investing ~₹200m more by end-FY21.
- **The Rewari-Bypass project.** Having signed the concession agreement during the quarter (on 19th Jun'20), the company has already applied for financial closure and expects in-principle approval shortly. It expects to complete all procedural requirements by Oct'20, then take an appointed date. The RoW is pegged at ~75%.
  - During Q1, the company invested ~₹2m as equity, implying the balance equity to be infused at ~₹669m. Management expects to infuse another ~₹380m by end-FY21.
- **Equity infusion schedule for hybrid annuity projects.** With infusion of another ~₹0.8bn toward its hybrid annuity projects (incl. post-Q1 infusion), the cumulative equity infused is ~₹1.7bn.
  - In the rest of FY21, the company plans to infuse another ~₹1bn, and ~₹0.7bn in FY22, with the balance thereafter.

Balance sheet

- **Net debt up.** At 30th Jun'20, net debt at ~₹2.7bn was up ~₹0.2bn q/q. The rise despite the lower scale was attributed to the need to support vendors/sub-contractors and to slower receivables from sub-contracting clients during the quarter in addition to equity-infusion needs for its hybrid annuity assets.
    - The 30th Jun'20 gross debt of ~₹3.8bn, up ~₹0.1bn q/q, comprised working-capital loans of ~₹1.4bn (up ~₹0.7bn q/q), promoters' interest-free loans of ~₹0.4bn (down ~₹29m q/q) and term loans and current maturities of ~₹1.9bn (down ~₹0.6bn q/q).
    - The term loans and current maturities includes receivable discounting loan of ~₹0.4bn, down ~₹0.3bn q/q.
    - End-Q1 net-debt-to-equity was yet steady q/q, at ~0.3x.
    - Management envisages closing FY21 with gross debt of ~₹3.1bn-3.2bn (slightly higher than the ~₹3bn planned earlier).
- **Consolidated debt rose on SPV drawdowns.** Consolidated net debt at 30th Jun'20 was up ~₹0.3bn q/q to ~₹4.4bn owing to the hybrid annuity SPV drawing down debt and the rise in the standalone entity.
    - The consolidated gross debt comprised standalone debt of ~₹3.8bn (up ~₹0.1bn q/q) and project debt of ~₹1.6bn (up ~₹0.2bn q/q).
    - Of the project debt on 30th Jun'20, ~₹1.5bn is attributable to the Gurgaon-Sohna hybrid annuity asset; the balance to the Rewari-Ateli-Mandi hybrid annuity project.
- At end-Q1, mobilisation advances (incl. advances toward material) were up ~₹0.6bn q/q to ~₹2.7bn. The company has room to draw another ~₹0.6bn of mobilisation advances from its projects under-execution – Delhi-Vadodara (Package IV, applied to the authority for ~₹0.3bn) and the balance from the Rewari-Ateli-Mandi hybrid annuity project.
    - From its four projects yet awaiting appointed dates, management looks to draw another ~₹3.5bn.
    - Thus, the company can avail of additional mobilisation advances of ~₹4.1bn.
- Talking of its working capital, the company indicated its debtors at end-Q1 were ~₹7.3bn (incl. retention monies of ~₹1.8bn) down from ~₹9bn a quarter back. Unbilled revenues were up ~₹1bn q/q to ~₹4.5bn, and inventory at ~₹1.1bn was up ~₹35m q/q). On the liabilities side, its creditors were ~₹5.9bn, down ~₹0.3bn q/q.
    - It further detailed its debtors composition. Q1 trade receivables include ~₹1.8bn of retention money, ~₹0.7bn of receivables from hybrid annuity projects, ~₹0.8bn from MoRTH and NHAI, ~₹2.1bn from its WorldBank-funded Rajasthan projects, ~₹0.5bn from GVK, ~₹0.5bn from Tata and ~₹1.5bn from IRB.
    - Of its ~₹4.5bn unbilled revenues, ~₹1.2bn is equally split between the WorldBank-funded Rajasthan projects and its hybrid annuity project SPVs (bills certified post-Q1). The balance comprised ~₹2.4bn from the NHAI and MoRTH (incl. ~₹1.1bn from the Maharashtra MoRTH projects), ~₹0.3bn for the Adani project in Telangana, ~₹0.2bn from IRB and the balance from others.

  - Management commented that while the NHAI and MoRTH receivables were timely, dues from its private debtors (largely IRB) and the WorldBank-funded Rajasthan projects are largely responsible for its high absolute trade receivables. It expects this to improve in coming quarters since this is the key for it to bring debt back to targeted levels.
  - Management further added that the pace of bill-certification by the authority was impacted by the pandemic-impelled lockdowns.
- Of its total limits of ~~₹10.7bn, non-fund based limits were pegged at ~₹9.2bn. and ~₹1.5bn was identified as working-capital limits.
  - Of its non-fund based limits, ~₹1.7bn is unutilised. Besides these, under the government relief measures announced as part of Atmanirbhar Bharat to release guarantees on a proportionate basis of works executed, it expects the release of ~₹1.1bn of its non-fund based limits shortly.

Guidance

- On the yet-evolving covid-19, management shied away from providing revenue "guidance". Nevertheless, it hopes to be better apprised by end-Q2end, and provide more clarity then.
  - Management did however comment that it expects to commence execution at all its orders by Q2/Q3 FY21, and were it not for the Covid-disruption, it sees quarterly revenues reaching ~₹8bn-9bn from Q3.
- For FY21, management retained its inflow targets of ~₹35bn-40bn, with greater focus on EPC orders, the proportion of hybrid annuity targeted at ~₹10bn.
- The company incurred ~₹40m capex in Q1 FY21, and doesn't see material capex needs beyond ~₹0.5bn for the rest of the year.
- On leverage, management expects to close the year with gross debt of ~₹3.1bn-3.2bn.
- It slightly raised its secular margin guidance to ~15-16.5% (from ~15-16% earlier).

Other highlights

- **Execution in the Covid-19 context.** With the gradual easing of restrictions, operations have slowly recommenced at all its sites.
  - At the time of the initial resumption, management faced certain issues owing to a disrupted supply-chain and non-availability of labour, among others. These have now eased substantially.
  - Currently, as execution has commenced at all its sites, management highlighted labour capacity at ~80-85%, from 50-70% in late Jun'20. The current blended execution efficiency was pegged at ~70-80%, from ~60% earlier.
  - With the labour situation improving day by day, management envisages labour capacity returning to normal by end-Q2 FY21.
- **Arbitration claims.** The company has an on-going arbitration claim against the Agra Development Authority. Of the ~~₹460m claimed, ~₹150m was awarded in its favour. These are now being contested in the higher courts (in Delhi).

- **Monetisation of hybrid annuity projects.** On monetising its hybrid annuity assets, management cited current circumstances playing spoilsport and being unconducive to monetisation prospects.
  - It indicated that it seeks to re-commence negotiations with investors toward end-FY21 to monetise an asset or two.
  - It had earlier decided to let the situation return to normal before monetisation so as to unlock greater value.

Valuation

To factor in a protracted working-capital cycle, and as we also bake in lower FY21 revenue from its sub-contracted hybrid annuity project (Adani), our FY21e earnings are ~3% lower than earlier estimated. The rub-off effect would lead to ~8% lower FY22e earnings.

Our sum-of-parts-based target price is derived using an 8x PE multiple for FY22e construction earnings (₹251 a share) and hybrid annuity assets at a 20% discount to the invested value. The per-share target price works out to ₹291 (against ₹311 earlier; down on earnings revision).

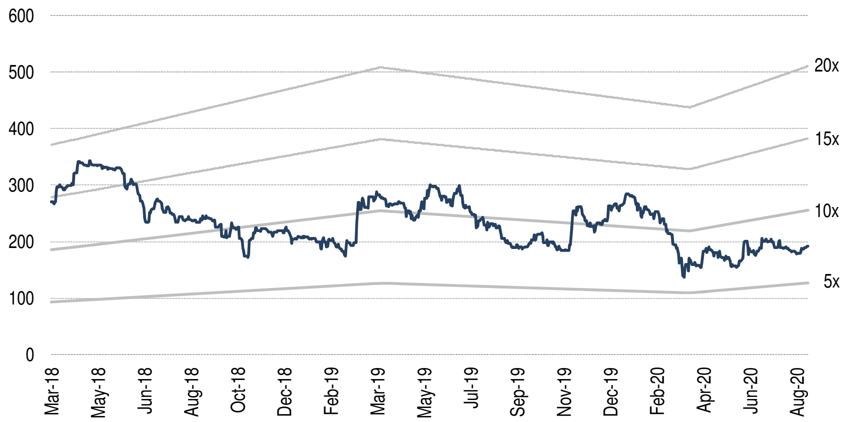
At the ruling price, (excl. investments) the stock trades at PER of 7.6x FY21e and 5.3x FY22e.

Fig 11 – Change in estimates

(₹ m)	Old		Revised		% change	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	22,797	29,458	20,957	27,342	-8.1	-7.2
EBITDA	3,309	4,430	3,220	4,143	-2.7	-6.5
EPS (₹)	22.4	33.9	21.9	31.4	-2.5	-7.5

Source: Anand Rathi Research

Fig 12 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Prolonged impact of Covid-19.
- Significantly slower-than-expected execution.
- Working-capital deterioration.

Appendix

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The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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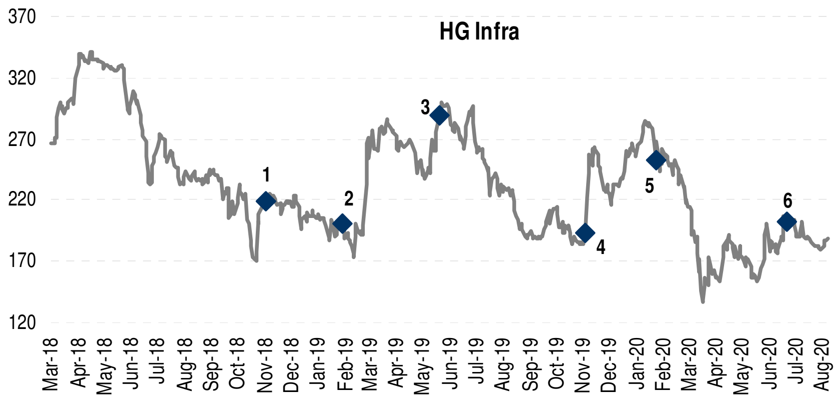
Rating and Target Price History (as of 19 August 2020)



	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
6	29-Jun-20	Buy	311	201

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