December 2021

Initiating Coverage

Edelweiss
Ideas create, values protect

G R INFRAPROJECTS

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On The Road To Success

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Edelweiss Securities Limited

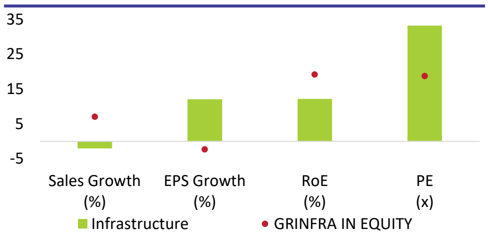
G R INFRAPROJECTS

INITIATING COVERAGE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	1,760
12 month price target (INR)	2,083
Market cap (INR bn/USD bn)	170/2.3
Free float/Foreign ownership (%)	13.5/2.9

INVESTMENT METRICS



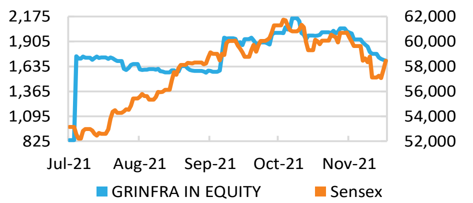
FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	72,445	77,505	90,140	1,06,816
EBITDA	13,104	13,167	15,403	18,360
Adjusted profit	7,801	7,615	9,057	10,949
Diluted EPS (INR)	80.7	78.8	93.7	113.2
EPS growth (%)	12.8	(2.4)	18.9	20.9
RoAE (%)	24.3	19.1	18.8	18.8
P/E (x)*	18.2	18.7	15.7	13.0
EV/EBITDA (x)*	11.4	11.4	9.7	8.1
Dividend yield (%)	0	0	0	0

* For implied EPC business

PRICE PERFORMANCE



Explore:

Financial model

Podcast

Corporate access

Video

On the road to success

G R Infraprojects (GRIL) is a premier EPC company with a dominant presence in the roads segment. It has been an arduous journey with many milestones, whose financial imprint is clear: a CAGR of about 30% each in revenue/EBITDA/PAT over FY11–21, best-in-class working capital cycle, low leverage (~0.2x) and high RoEs (20%-plus).

Our bullish view on GRIL is built on its road map—segmental diversification and strong cash flow. While a large base will moderate revenue/PAT CAGR to 14%/12% over FY21–24E (FY21 EBITDA included ~INR2.1bn bonus) with RoEs in high teens, GRIL has miles to cover still. Initiate at 'BUY' with an SoTP-based TP of INR2,083. Watch out for pace of segmental diversification.

A solid base: Creditable and consistent operating performance

One of the largest road makers in India, GRIL has outdone peers on operating metrics over the past decade. Order book increased at a 33% CAGR over FY13–21 while revenue grew ~13x over the last decade. It boasts among the lowest working capital cycle: ~62 days over FY12–21 on average. Consequently, its RoEs have been consistently 20%-plus since FY15. It also has a robust HAM portfolio of 17 assets.

Meanwhile, GRIL is reducing its reliance on roads by diversifying into verticals such as railways and metro rail. The current book-to-bill is low at 1.9x, and we expect order accretion to improve aided by segmental diversification.

Fiscal cushion: Financial innovation enhances value proposition

Strong cash flows have allowed GRIL to fund growth largely via internal accruals. A widely experienced but capital-conscious management has raised minimal equity; despite this, its leverage (net debt to equity at 0.2x) remains quite comfortable.

GRIL achieved this through financial engineering: i) judicious use of low-cost debentures; ii) timely asset monetisation; and iii) refinancing of BOT/HAM assets. And given GRIL's low leverage, PAT margins and return ratios are among the best in the EPC space. It is no surprise that the company commands a credit rating of "AA".

Outlook and valuation: Quality at a price; initiate with 'BUY'

GRIL's leadership in the roads space and potential HAM asset monetisation are likely to culminate in steady earnings growth and robust cash flows. Alongside, its large-scale operations and the pressure on margins would moderate the growth trajectory. We forecast GRIL's: i) order intake to increase at an 18% CAGR over FY21–24; ii) order book would reach ~INR300bn by FY24; iii) a revenue/EBITDA/PAT CAGR of 14%/12%/12% over FY21–24E; and iv) working capital cycle would stabilise around current levels, which would help keep leverage under check. RoEs would settle in high teens eventually (~19%). Given GRIL's solid base and operational excellence that are now layered with diversification, its fundamentals are more 'constructive'. All in all, we are initiating coverage at **'BUY/SN'** with an SoTP-based TP of INR2,083: INR1,837 for EPC biz (22x FY23E EPS) and INR246 for HAM assets (1–1.2x P/BV).

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Executive Summary

Consistent, rolling performance

GRIL is a premier EPC company with more than 25 years of experience and is among the largest road companies in the country. It has clocked an impressive revenue/EBITDA/PAT CAGR of 29%/32%/34% over FY11–21 with a track record of efficient project management and execution. We attribute the financial performance to operational expertise aided by: i) skilled manpower; ii) an in-house integrated model; and iii) efficient utilisation of equipment.

Steady order book growth deepens growth prospects

The company's order book expanded at a 33% CAGR over FY13–21. This was possible due to: i) an increase in average size of projects (up ~17x over FY13–21); ii) geographical diversification; and iii) segmental diversification with the company entering the railways, metro rail and optic fibre cables segments.

GRIL ended Q2FY22 with an order book (including L1 projects) at ~INR164bn. Muted order inflows in H1FY22 dragged the book-to-bill to 1.9x; however, we expect order inflows to pick up going ahead as the NHAI speeds up awarding in H2FY22.

Meanwhile the company expects the share of roads in order book to moderate to 80–85% (from current ~95%) in three–five years with non-roads making up the rest. In our view, the pace of segmental diversification is a key variable to watch out for.

Reputable performance across the board…

Over past decade, GRIL's revenues have grown ~13x aided by robust order inflows and its strong execution skills. During FY13–21, the company's revenues in any year, have been on an average, ~45% of the opening order book for that year. Considering the average execution cycle for its road projects is 2.5–3 years, it is no surprise that the company has established a reputation of completing projects ahead of schedule.

Its EBITDA margin expanded from an average of 11.5% over FY12–16 to 18.9% over FY17–21 due to: i) ahead-of-schedule completion of projects resulting in early completion bonus; ii) economies of scale; iii) adoption of an integrated model; and iv) an increase in project complexity.

The tight leash on working capital cycle is clear. Adjusting for loans and advances given to HAM SPVs, GRIL's net working capital cycle (NWC) was merely 62 days over FY12–21 on average, among the lowest in the EPC space. The company thus generated healthy operating cash flow and has been able to fund its growth largely via internal accruals.

What's truly commendable is that GRIL has raised equity capital only once in its lifetime (~INR800mn in 2011). Despite this, its leverage (net debt to equity at 0.2x at end-Q2FY22) is quite comfortable.

Finally, GRIL's return ratios are among the best. It has consistently delivered RoEs upwards of 20% since FY15. Given its leverage, PAT margins and return ratios are among the best in the EPC space. Accordingly, it is no surprise that the company commands a credit rating of "AA", among the highest in the EPC space.

…and better than peers

Among listed companies with a significant presence in the roads space, the company is second, only to Dilip Buildcon (DBL) in terms of revenue CAGR over FY11–21. On

EBITDA CAGR, it is the joint topper with DBL. And GRIL is a runaway leader on PAT CAGR over the same period.

Value creation potential from strong presence in asset ownership

GRIL had entered the asset ownership space in FY11. Currently, the company has 17 assets in its portfolio—eight operational projects, two projects are under construction while the work is yet to start on the remaining seven.

The company had invested ~INR11.8bn in its HAM/BOT projects at end-Q2FY22; it has to additionally infuse ~INR13.7bn in its HAM projects. A potential InViT/asset sale could result in significant value creation for shareholders, in our view.

Financial innovation the icing on the cake

The company has complemented its robust operational performance with financial innovation. This manifests in:

i) **low cost of borrowings** given its excellent credit rating and judicious use of debentures (coupon of 6.2-6.7%) helps optimise capital structure;

ii) **timely asset monetisation** so far of two BOT assets at 1.8x P/BV; and

iii) **refinancing of BOT/HAM assets,** which not only reduces financing costs, but also helps in equity take-out apart from reducing interest rate volatility.

Widely experienced, conservative management

GRIL's promoters have a long-standing experience in their field of operation, i.e. infrastructure. And they have been capital-conscious, having raised equity only once in their history. They have also been conservative as far as balance sheet is concerned and have always kept leverage low.

Outlook and valuation: Quality at a price; initiate with 'BUY'

We believe the stock's trajectory will be determined by order-wins with investors likely to pay keen attention to its ability to expand the footprints in segments other than roads. While revenue/PAT growth is likely to moderate due to a large base, we believe a combination of low leverage and high return ratios will sustain the 'quality of growth'.

We forecast: i) order intake would increase at an 18% CAGR over FY21–24; ii) order book would touch ~INR300bn by FY24E; iii) revenue/EBITDA/PAT CAGR of 14%/12%/12% over FY21–24 (FY21 EBITDA boosted by ~INR2.1bn early completion bonus); and iv) leverage would remain under check. And we also forecast the company's RoEs would stay healthy and settle in high teens eventually (~19%).

All in all, we are initiating coverage on GRIL with **'BUY/SN'**. Our SoTP-based target price of INR2,083 consists of INR1,837 for its EPC business (22x FY23E EPS) and INR246 for HAM assets (1–1.2x P/BV).

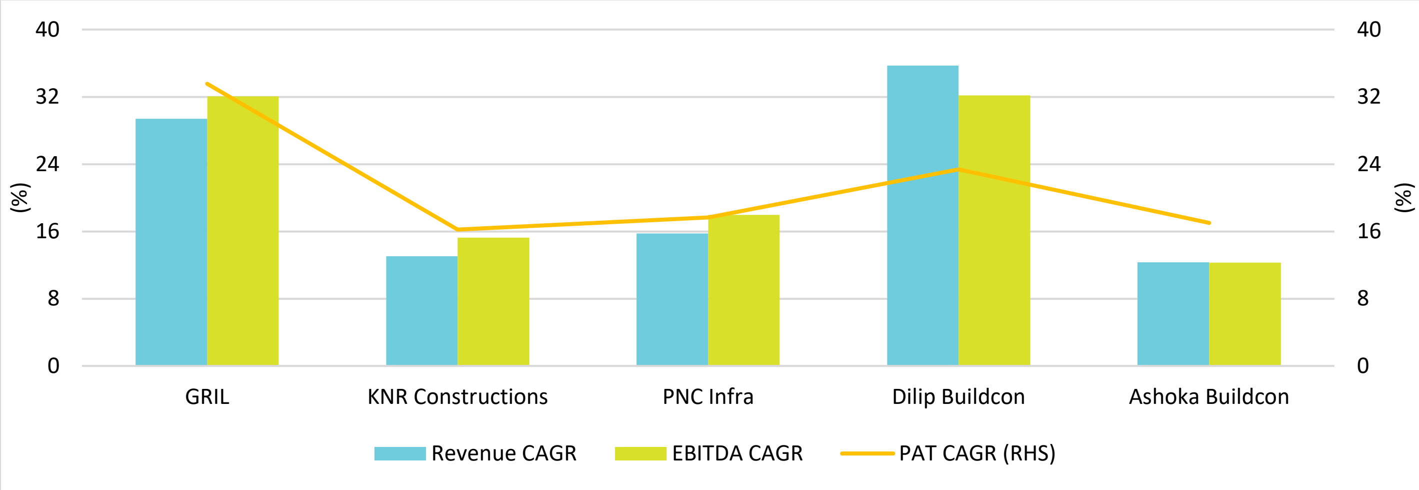
Key risks

i) **Covid-19 related uncertainty**: Any resurgence in the number of cases can dampen project awards and execution.

ii) **Segmental concentration in roads**: Majority of GRIL's order book is concentrated in the roads segment, which exposes it to risk arising out of a slowdown in road project awards and lack of growth options due to market share in the segment hitting a ceiling.

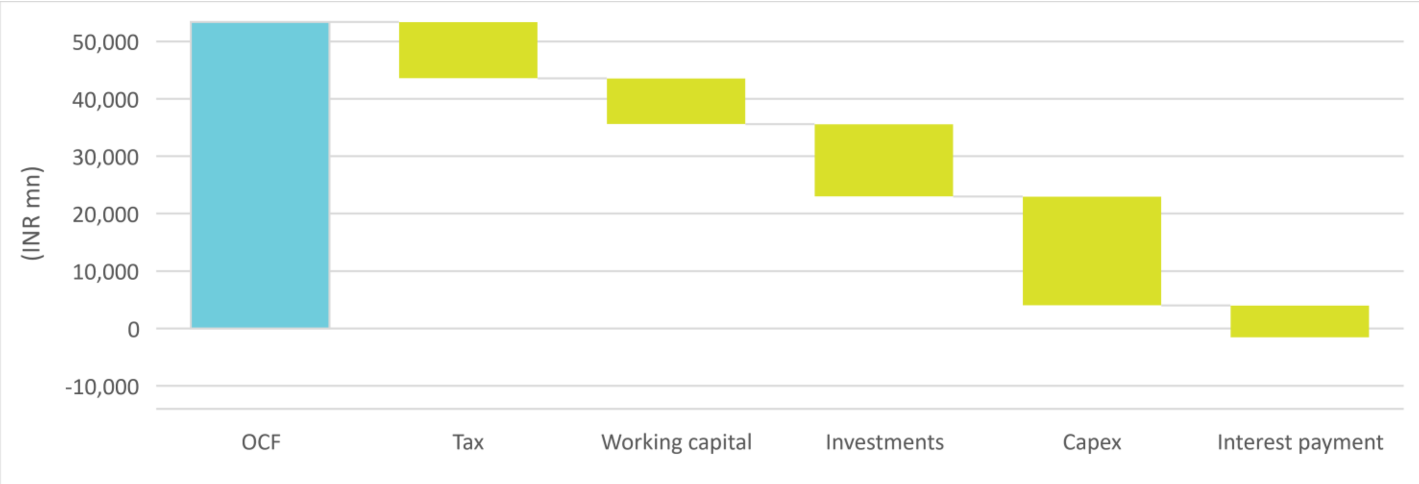
The Story in Charts

Exhibit 1: A solid base formation over FY11–21...



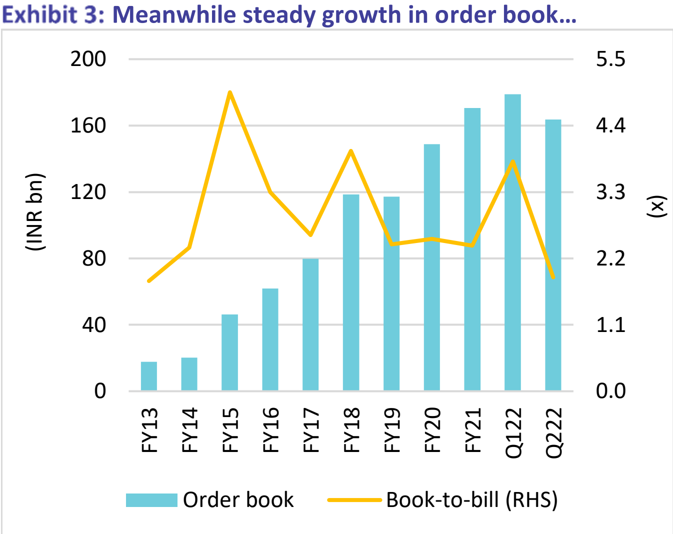
Source: Company, Edelweiss Research

Exhibit 2: ..with fund requirements over FY13–21 having been met largely through internal accruals



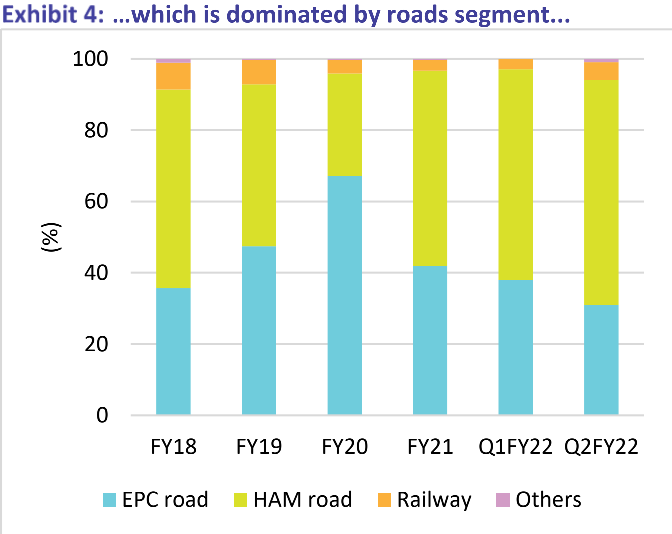
Source: Company, Edelweiss Research

Exhibit 3: Meanwhile steady growth in order book...



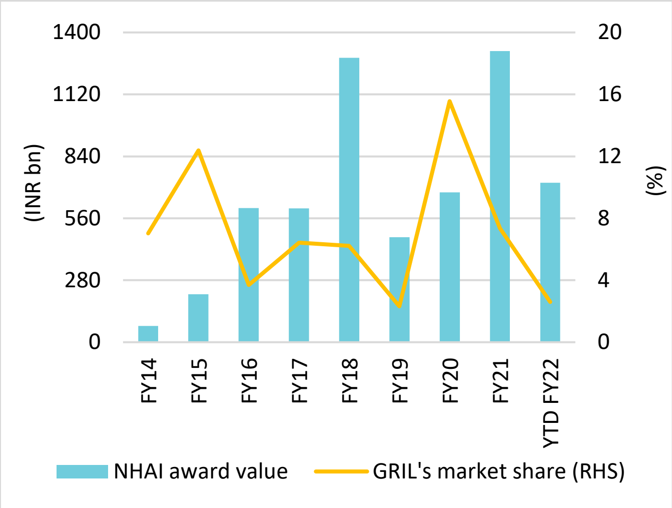
Source: Company, Edelweiss Research

Exhibit 4: ...which is dominated by roads segment...



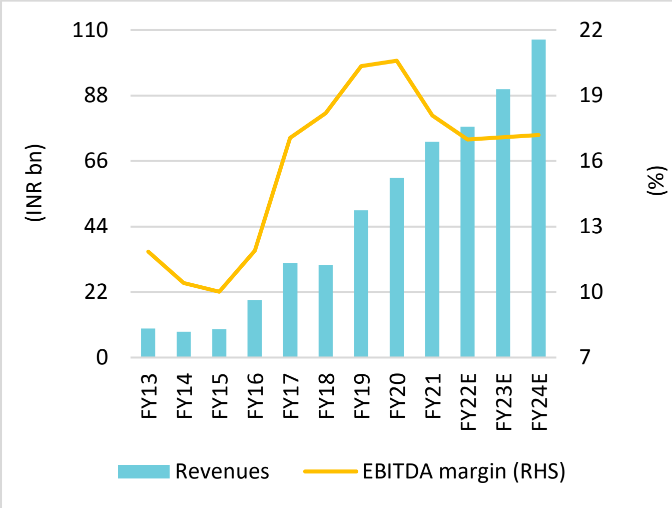
Source: Company, Edelweiss Research

Exhibit 5: ..and hence dependant on NHAI awards



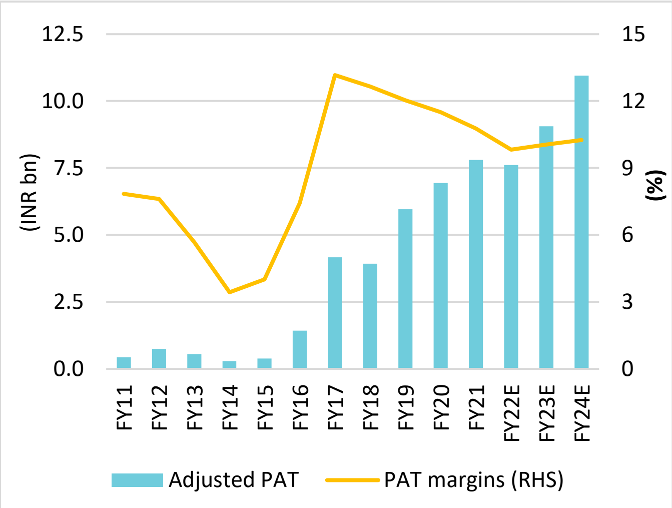
Source: Company, Edelweiss Research

Exhibit 6: Top-line growth to gather pace starting FY23E



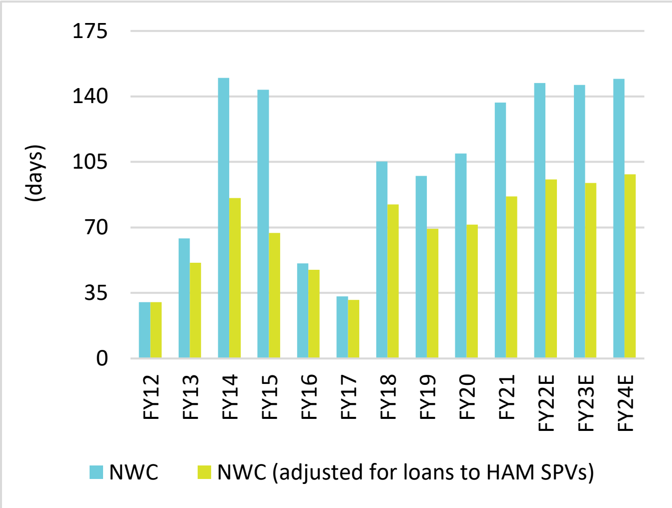
Source: Company, Edelweiss Research

Exhibit 7: PAT margin to stay broadly stable



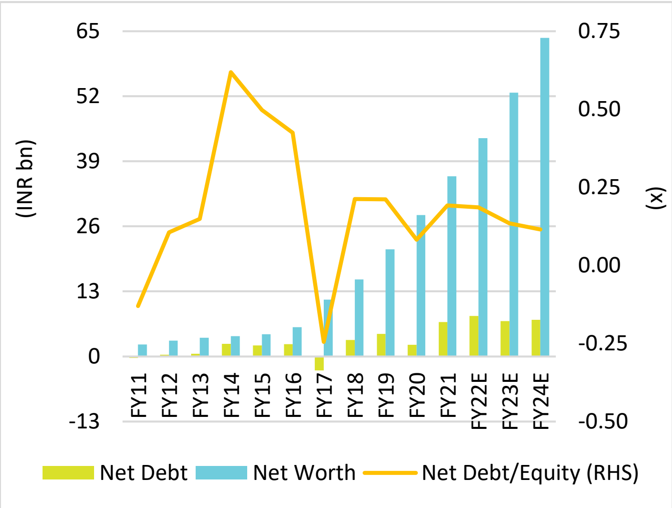
Source: Company, Edelweiss Research

Exhibit 8: Net working capital cycle (NWC) to remain healthy



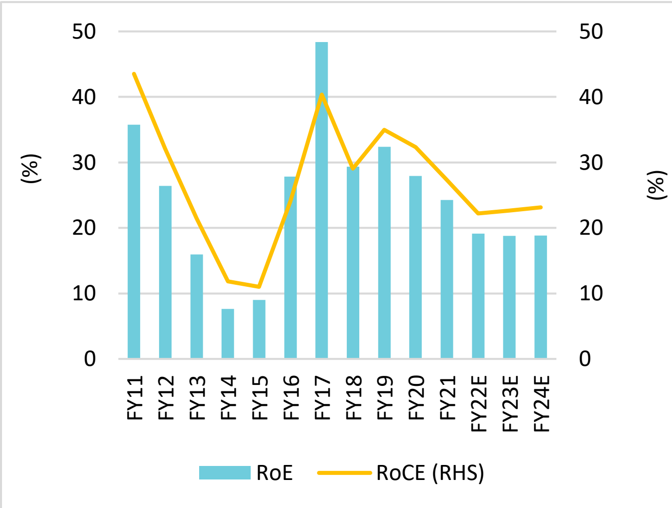
Source: Company, Edelweiss Research

Exhibit 9: Leverage ratios to decline marginally...



Source: Company, Edelweiss Research

Exhibit 10: ...and return ratios to stay healthy



Source: Company, Edelweiss Research

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	72,445	77,505	90,140	1,06,816
Gross profit	18,604	19,283	22,517	26,790
Employee costs	4,548	5,098	5,930	7,027
Other expenses	952	1,018	1,184	1,404
EBITDA	13,104	13,167	15,403	18,360
Depreciation	2,268	2,848	3,360	3,999
Less: Interest expense	1,396	1,441	1,297	1,265
Add: Other income	1,275	1,307	1,368	1,550
Profit before tax	10,720	10,186	12,114	14,645
Prov for tax	2,914	2,570	3,057	3,696
Less: Other adj	0	0	0	0
Reported profit	7,806	7,615	9,057	10,949
Less: Excp.item (net)	(5)	0	0	0
Adjusted profit	7,801	7,615	9,057	10,949
Diluted shares o/s	97	97	97	97
Adjusted diluted EPS	80.7	78.8	93.7	113.2
DPS (INR)	0	0	0	0
Tax rate (%)	27.2	25.2	25.2	25.2

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	483	483	483	483
Reserves	35,561	43,176	52,233	63,182
Shareholders funds	36,044	43,659	52,716	63,666
Minority interest	0	0	0	0
Borrowings	13,511	11,521	10,531	10,531
Trade payables	7,283	8,945	10,747	13,503
Other liabs & prov	6,495	6,529	6,560	6,585
Total liabilities	63,577	70,901	80,803	94,537
Net block	13,413	14,090	15,259	16,794
Intangible assets	38	34	25	11
Capital WIP	555	565	575	585
Total fixed assets	14,006	14,689	15,859	17,390
Non current inv	2,456	6,456	8,456	10,456
Cash/cash equivalent	6,596	3,406	3,434	3,179
Sundry debtors	8,676	10,860	13,342	14,752
Loans & advances	10,495	11,626	13,972	16,556
Other assets	21,349	23,865	25,741	32,204
Total assets	63,577	70,901	80,803	94,537

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
EPC rev. growth (%)	20.2	7.0	16.3	18.5
Order book-to-bill	2.4	2.7	2.8	2.8
Gross margin (%)	25.7	24.9	25.0	25.1
EBITDA margin (%)	18.1	17.0	17.1	17.2
Net profit margin (%)	10.8	9.8	10.0	10.3
Revenue growth (% YoY)	20.2	7.0	16.3	18.5
EBITDA growth (% YoY)	5.6	0.5	17.0	19.2
Adj. profit growth (%)	12.4	(2.4)	18.9	20.9

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	7,806	7,615	9,057	10,949
Add: Depreciation	2,268	2,848	3,360	3,999
Interest (net of tax)	1,016	1,077	970	946
Others	(19,236)	(9,350)	(10,727)	(16,328)
Less: Changes in WC	(9,033)	(4,109)	(4,840)	(7,639)
Operating cash flow	888	6,299	7,500	7,205
Less: Capex	5,558	3,510	4,510	5,510
Free cash flow	(4,670)	2,789	2,990	1,695

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(8.0)	0	7.0	7.0
Repo rate (%)	4.0	4.0	4.3	4.3
USD/INR (average)	74.2	73.0	72.0	72.0
Interest cost (%)	1.9	1.9	1.4	1.2
Employee cost (%)	6.3	6.6	6.6	6.6
Other exp. (%)	1.3	1.3	1.3	1.3
Other inc. (%)	1.8	1.7	1.5	1.5
Dep. (% gr. block)	11.1	11.9	11.8	11.8
Effect. tax rate (%)	27.2	25.2	25.2	25.2

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	24.3	19.1	18.8	18.8
RoCE (%)	27.3	22.2	22.6	23.2
Inventory days	62	72	67	65
Receivable days	43	46	49	48
Payable days	84	86	84	82
Working cap (% sales)	46.9	45.0	44.1	44.1
Gross debt/equity (x)	0.4	0.3	0.2	0.2
Net debt/equity (x)	0.2	0.2	0.1	0.1
Interest coverage (x)	7.8	7.2	9.3	11.4

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)*	18.2	18.7	15.7	13.0
Price/BV (x)	7.0	3.9	3.2	2.7
EV/EBITDA (x)*	11.4	11.4	9.7	8.1
Dividend yield (%)	0	0	0	0

Source: Company and Edelweiss estimates
*Note: * For implied EPC business*

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	12.8	(2.4)	18.9	20.9
RoE (%)	24.3	19.1	18.8	18.8
EBITDA growth (%)	5.6	0.5	17.0	19.2
Payout ratio (%)	0	0	0	0

Investment Rationale

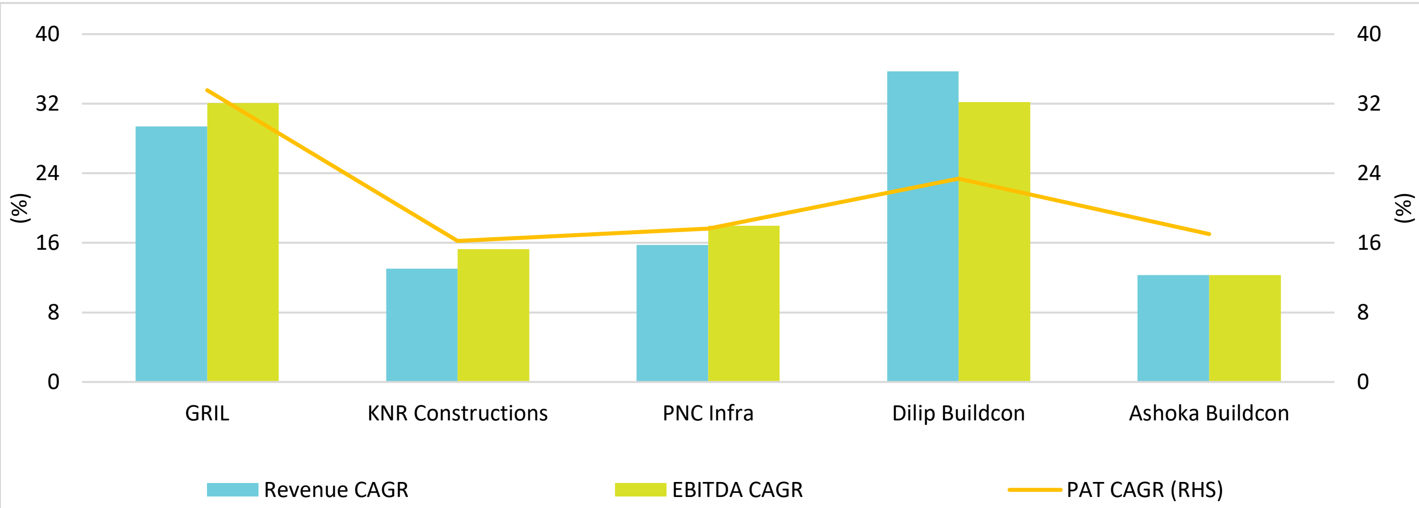
- GRIL has a solid track record—revenue/EBITDA/PAT CAGR of 29%/32%/34% over FY11–21 and order book CAGR of 33% over FY13–21.
- Healthy operating margins and a lean working capital cycle (average 62 days over FY12–21) have yielded strong cash flows, resulting in low leverage (net debt to equity at 0.2x) and healthy return ratios (RoEs upwards of 20%) despite a robust BOT/HAM asset portfolio.
- Financial innovation through judicious use of low-cost debentures, timely asset monetisation and refinancing of BOT/HAM assets have reduced financing costs, helped in equity take-out and reduced interest rate volatility, enhancing GRIL's value proposition and resulting in a credit rating of 'AA".

A. Consistent performance, courtesy robust execution skills...

GRIL is a premier EPC company in India with a special focus on the roads segment. Incorporated in December 1995, it has transformed itself into an integrated EPC player with a track record of timely project execution over the past 25 years.

It has delivered consistent performance over the past decade on various operational parameters. Among listed companies with significant presence in the roads space, GRIL is second, only to Dilip Buildcon (DBL) in terms of revenue CAGR over FY11–21. And it is neck and neck with DBL on EBITDA CAGR and is the runaway leader on PAT CAGR over the same period.

Exhibit 11: GRIL has performed well on various operational parameters over FY11–21



Source: Company, Edelweiss Research

Today, the company boasts presence in 15 states, an employee strength of 16,500-plus and equipment base of 7,000-plus. Having scripted a stunning success story in the roads segment, it is now diversifying into other segments to capture a larger share of the infra pie.

B. ....that manifest in early completion of projects

GRIL has over 25 years of experience in executing EPC projects in the roads sector. Since 2006, the company has executed more than 100 road construction projects. It has a track record of efficient project management and execution, aided by: i) skilled manpower; ii) an in-house integrated model; and iii) efficient utilisation of equipment.

These have enabled the company to not only complete projects ahead of time, but also benefit handsomely by getting early completion bonus.

Exhibit 12: Early completion of projects by GRIL

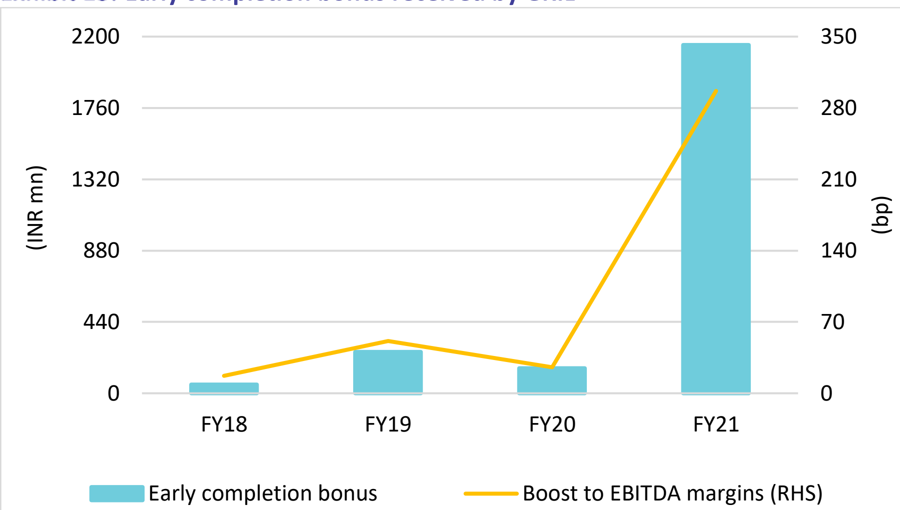
Project	Scheduled construction period (in days)	Completed earlier than scheduled (in days)	Gross bonus received (INR mn)
Nagaur Mukundgarh	730	394	1196.5
Porbandar Dwarka	1095	299	535.8
Shillong Bypass	1095	318	432.1
Jowai – Ratacherra	910	46	68.8
Faridkote – Kotakpura	730	90	154.3
Hisar Dabwali Package 1	913	115	164.7
Hisar Dabwali Package 2	913	106	194.4
Phagwara Rupnagar	910	38	53.8
Jodhpur Pokaran	730	67	53.3
Bahraich-Rupaidiha		28	27.6
Barmer Jaisalmer	1091	126	89.6
Bagundi Barmer	910	106	48.1
Lokhandi Sawargaon	730	108	100
Reengus Seekar			187.7

Source: Company, Edelweiss Research

GRIL has demonstrated its execution prowess time and again. Sample this:

- Over FY11–17, 13 out of 15 completed projects were delivered before/as per timelines.
- Of the 18 projects completed by the company over 2013–18, as many as 16 projects were completed early or within stipulated timelines.
- In the last three fiscal, all the projects were completed prior to or by scheduled timelines.

Exhibit 13: Early completion bonus received by GRIL



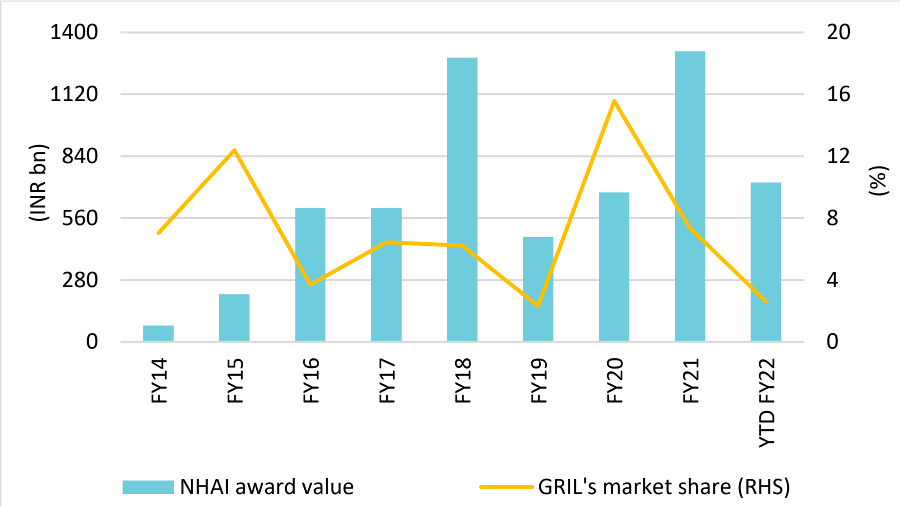
Source: Company, Edelweiss Research

Timely completion of projects has enabled the company to receive an early completion bonus from clients, which has boosted its operating margins.

C. Steady growth in order book burnishes growth prospects

Over the past two decade, GRIL's scale of operations has expanded considerably. One of the first road projects that it executed was for PWD Rajasthan in 1997 at a cost of INR26.5mn. From those humble origins, it has now reached a stage where its order book includes the Vadodara–Mumbai Expressway Pkg 13 (Shirsad-Masvan) with a bid project cost of INR27.5bn.

Exhibit 14: GRIL's market share in NHAI projects



Source: Company, Edelweiss Research

The company has witnessed its order book expanding rapidly over the past decade. Its order book has expanded at a 33% CAGR over FY13–21. In terms of absolute size, its order book of ~INR164bn at end-Q2FY22 (including L1 projects) was ~10x higher than its order book a decade back.

Exhibit 15: GRIL's order book has surged over past decade

Source: Company, Edelweiss Research

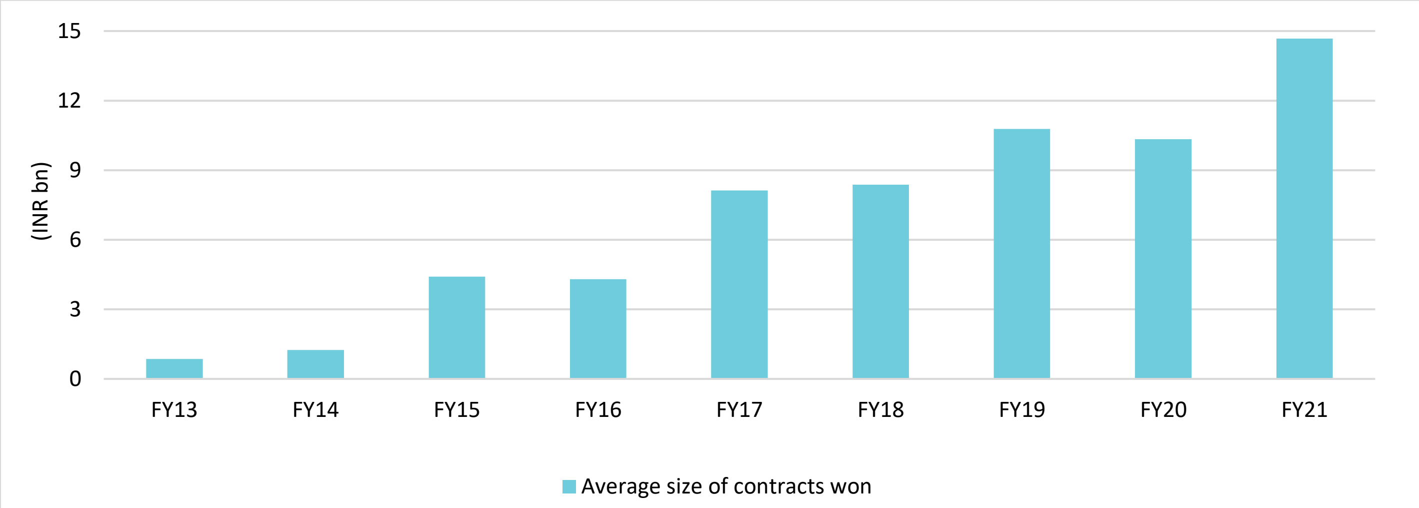
*Note: *includes L1 orders*

The company has been able to achieve the stupendous growth in its order book via: i) an uptick in the average size of contracts won; ii) geographical diversification; and iii) segmental diversification.

We discuss each of these factors in detail below:

- **Increase in average size of contracts won**: There has been a steady increase in the size of contracts won. With the company successfully executing projects, its pre-qualifications have improved, thereby qualifying to bid for and win bigger contracts.

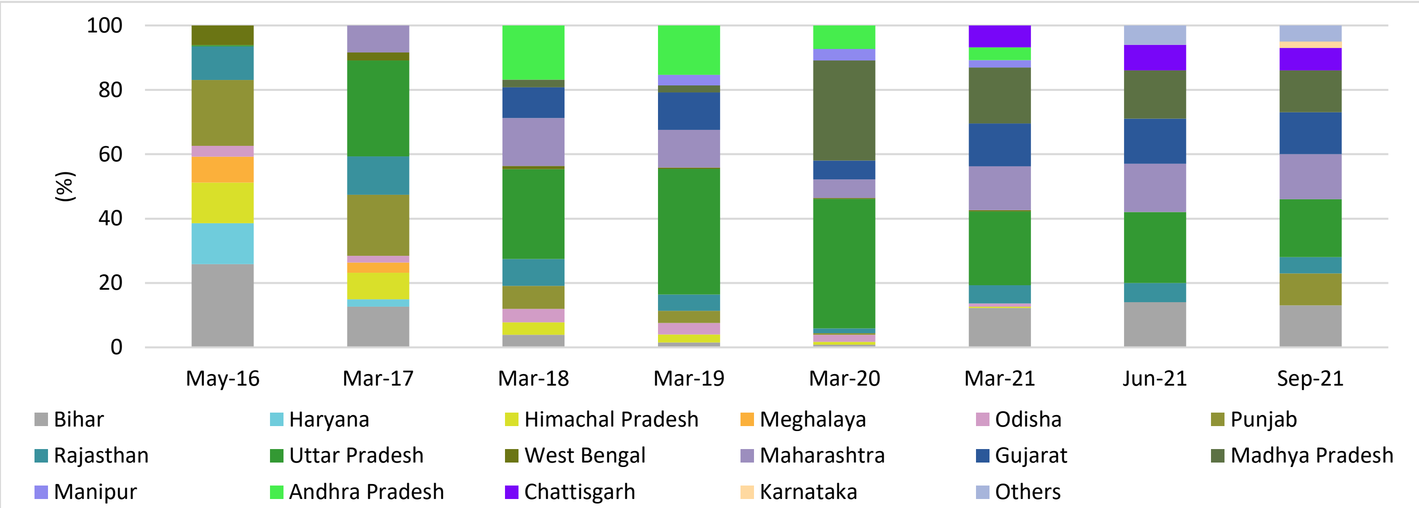
Exhibit 16: Steady increase in size of projects won



Source: Company, Edelweiss Research

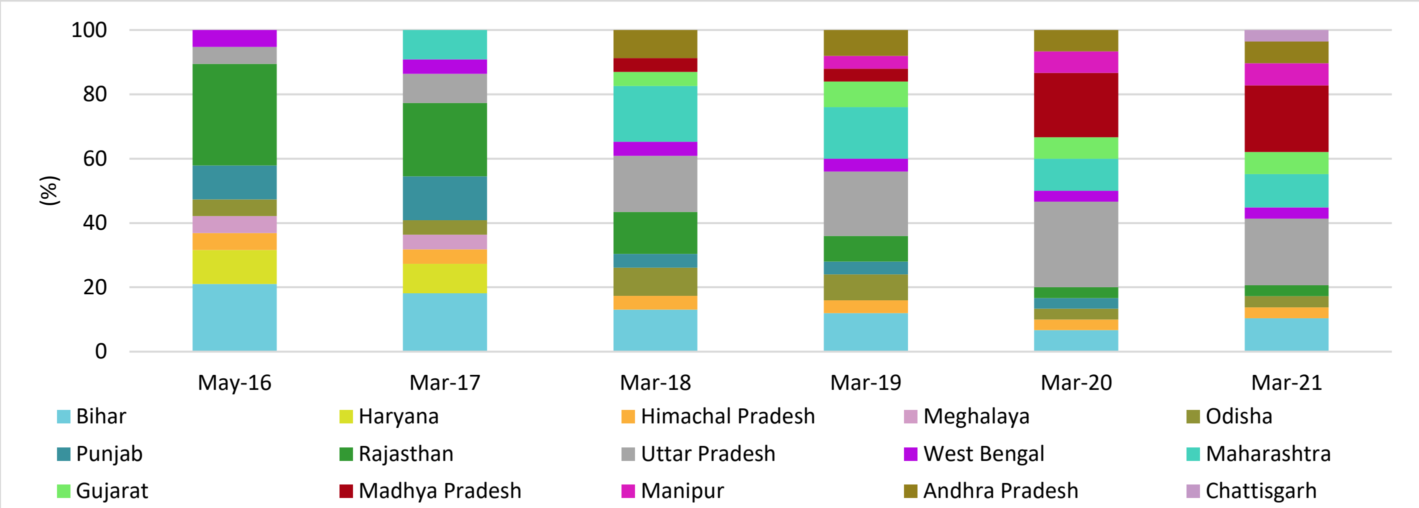
- **Geographical diversification:** Not only has the company's order book grown in size, it has also expanded geographically. Starting with Rajasthan, GRIL has steadily expanded into other states. Today, it is present in 15 states in the country.

Exhibit 17: GRIL has pan-India execution capabilities (split of order book by value)



Source: Company, Edelweiss Research

Exhibit 18: GRIL has won orders in multiple states (split of order book by number of contracts)

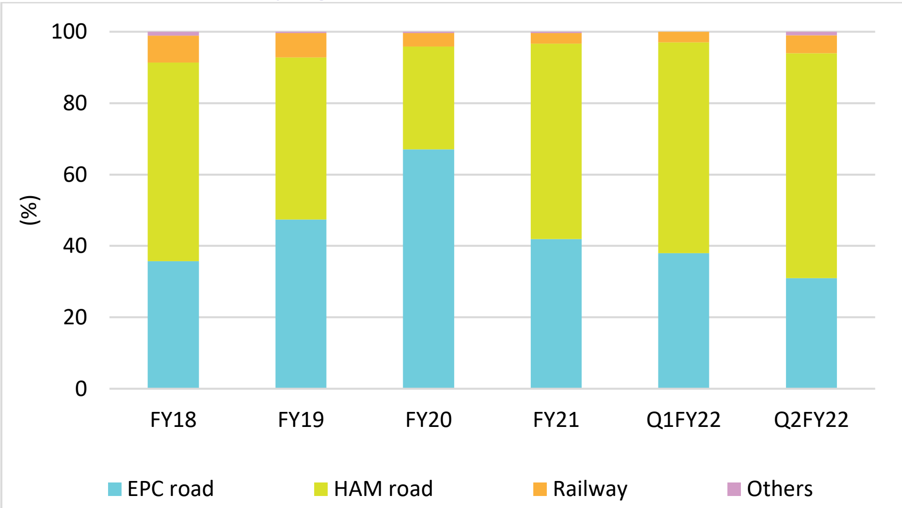


Source: Company, Edelweiss Research

This has enabled the company to reduce geographical concentration risks.

- **Segmental diversification**: Apart from geographical diversification, the company has taken measures to enhance exposure to segments other than roads.

Exhibit 19: Order book by segment (in terms of value)



Source: Company, Edelweiss Research

In the roads segment, the company started with EPC projects. Later, it ventured into the HAM segment by winning its first HAM project in FY17. Over the past few years, HAM orders have contributed, on average, 40–45% of its order book. At the end of Q2FY22, HAM orders contributed 63% of the order book.

After establishing its presence in the roads space, it has entered the following segments:

GRIL has entered the optic fibre cables, railways and metro rail segments and plans to venture into the power transmission vertical in the future

- **Optic fibre cables (OFC):** GRIL first took a contract for laying cables in eastern and north-eastern regions of the country in FY16.
- **Railways:** It entered the railway segment in FY18 by winning a couple of projects worth ~INR9bn; its scope of work involved construction of roadbed, major and minor bridges, track linking, civil engineering works, S&T, OHE, TSS and general electrical works.

It deepened its presence in the sector by emerging as an L1 in an INR5.9bn contract for constructing the 8.5km Gurugram section of the 164km Delhi – SNB – Alwar Regional Rapid Transit System (RRTS) line in April 2020.

It is also trying to enter the High Speed Rail (HSR) segment by bidding for the Mumbai-Ahmedabad HSR project. It is among the three firms that have submitted bids to construct the 8.2km Package C-5 of the project.

- **Metro rail:** The company has won an ~INR3.6bn contract for construction of elevated structures (viaduct and stations) on Reach-6 line of the Bangalore Metro Rail Project.
- **Power transmission:** Going ahead, GRIL plans to enter the power transmission segment, wherein it would compete with PGCIL and Adani. The company does not plan to hold these assets over a longer period of time and will look to churn them after completion.

The company expects the share of roads in its order book to decline to 80–85% over the next 3–5 years and the balance will come from non-road segments. We believe reducing dependence on the roads segment is key to enhancing the company's growth prospects.

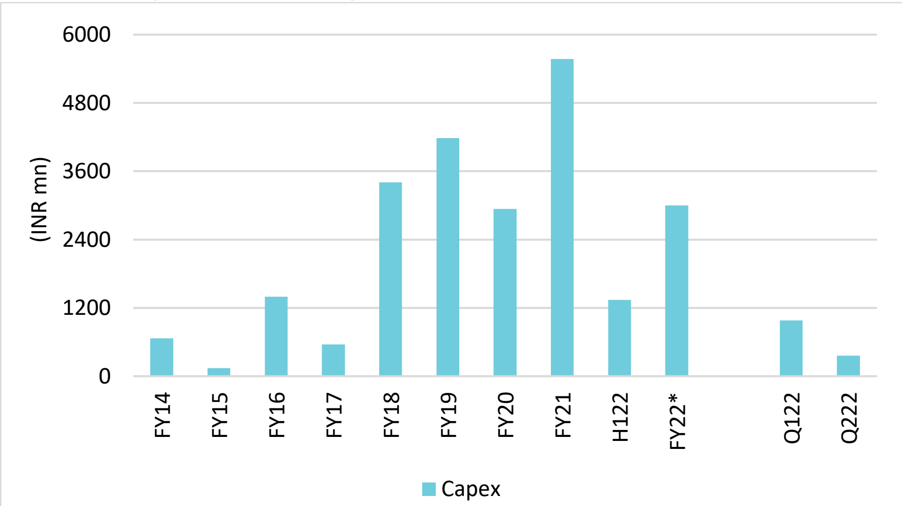
D. In-house integrated model burnishes execution skills

Over the years, GRIL has developed a highly competent in-house integrated model, which enables it to deliver a project from conceptualization to completion. The set-up includes:

- a design and engineering team;
- three manufacturing units at Udaipur (Rajasthan), Guwahati (Assam) and Sandila (Uttar Pradesh) for processing bitumen, thermoplastic road-marking paint and road signage; and
- a fabrication and galvanization unit at Ahmedabad (Gujarat) for manufacturing metal crash barriers and electric poles.

The company has invested heavily in establishing its own equipment base.

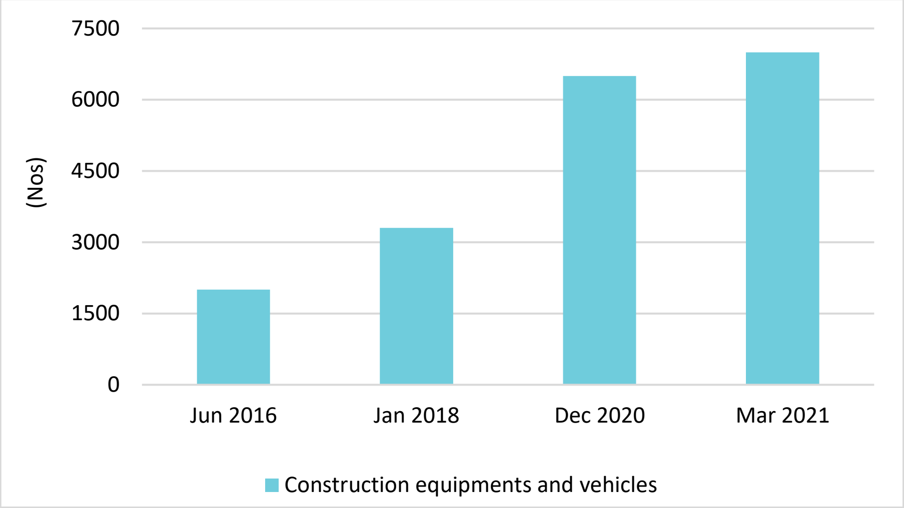
Exhibit 20: Capex undertaken by GRIL



Source: Company, Edelweiss Research

*Note: * Capex guidance for FY22*

Exhibit 21: GRIL boasts an impressive equipment base



Source: Company, Edelweiss Research

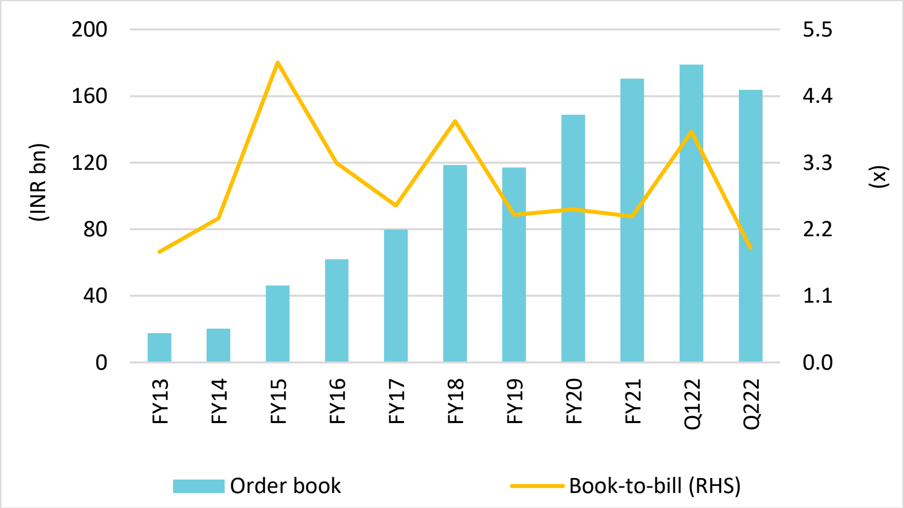
Note: As at FY21 end, the company's equipment base comprised over 7,000 construction equipment and vehicles.

The company's in-house integrated model reduces dependence on third-party suppliers for key raw materials, construction equipment and other products and services required in the development and construction of projects. This is one of the key reasons behind its ability to complete projects ahead of schedule.

E. Healthy execution and margin trajectory

Over the last decade, GRIL's revenue has grown ~13x. This was driven by its robust order inflows and strong execution skills, which enabled conversion of order book into revenue at a fast clip.

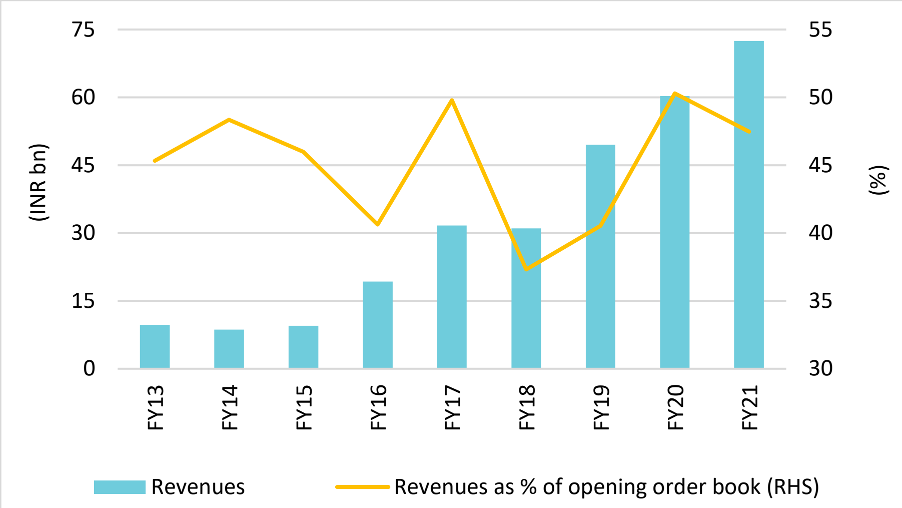
Exhibit 22: Order book has grown substantially



Source: Company, Edelweiss Research

During FY13–21, GRIL's revenue in any year, have been on an average, ~45% of the opening order book for that year. This indicates that the company virtually completes its projects in a little over two years.

Exhibit 23: GRIL has good order book to revenue conversion track record

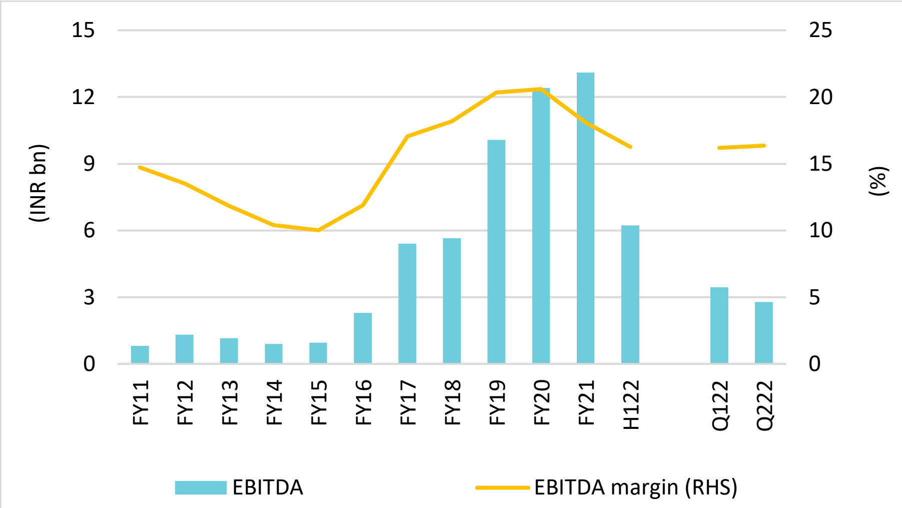


Source: Company, Edelweiss Research

Considering the average execution cycle for road projects is 2.5–3 years, testifies to the level of skills that GRIL has demonstrated on the execution front.

Along with top line, the company has performed well on the margin front as well. Its EBITDA margin expanded from average of 11.5% over FY12–16 to 18.9% over FY17–21.

Exhibit 24: Margins have improved considerably



Source: Company, Edelweiss Research

Note: Margins during FY21 and H1FY22 impacted due to covid-19

This was possible due to:

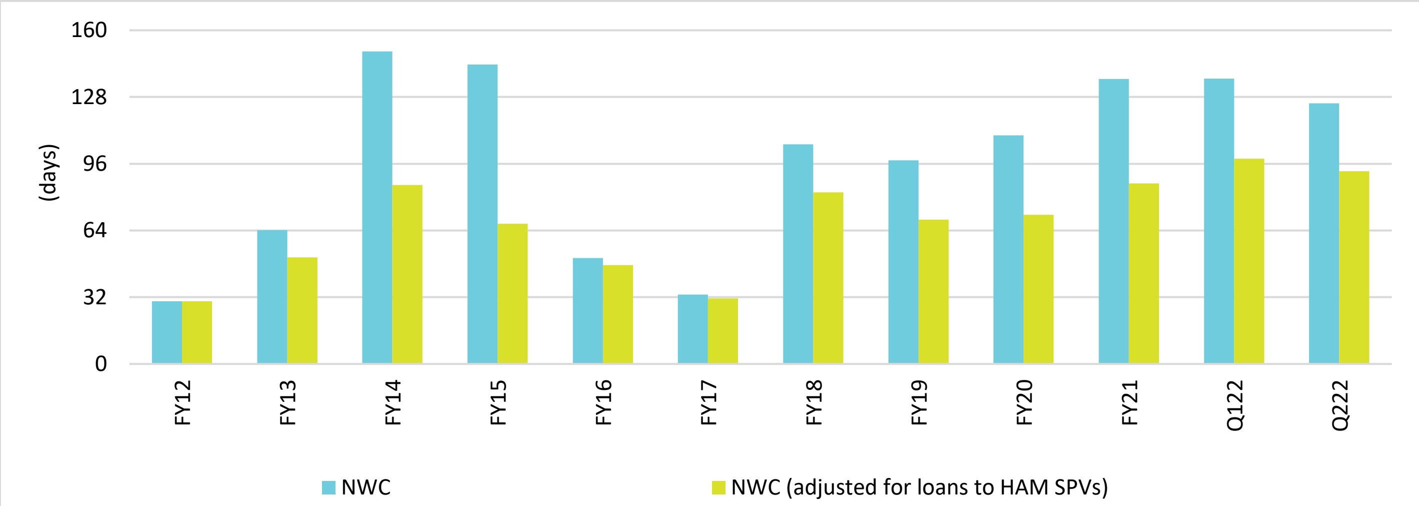
- Ahead-of-schedule completion of projects, which helped the company reduce its overheads at the project level.
- Economies of scale (due to increase in average size of projects)
- Early completion bonus
- Adoption of an integrated model
- Increase in complexity: Change in project mix from simple item rate contracts to EPC/HAM projects, wherein design is the company's responsibility.

With the NHAI bringing down the execution time frame for HAM projects (from 30–36 months earlier to ~24 months now for most projects), we believe it would be difficult for road companies to get significant early completion bonus. This coupled with i) a rise in commodity prices and ii) higher competition following dilution of pre-qualification norms post covid-19 are likely to lead to moderation in margins. We believe GRIL's EBITDA margin will eventually settle down in the 17–18% range.

F. Efficient working capital management

Apart from revenues and margins, GRIL has performed well on the working capital cycle front. Its net working capital cycle (NWC), which stood at an average of 92 days over FY12–21, is among the best in the EPC space.

Exhibit 25: GRIL's working capital management has been impressive



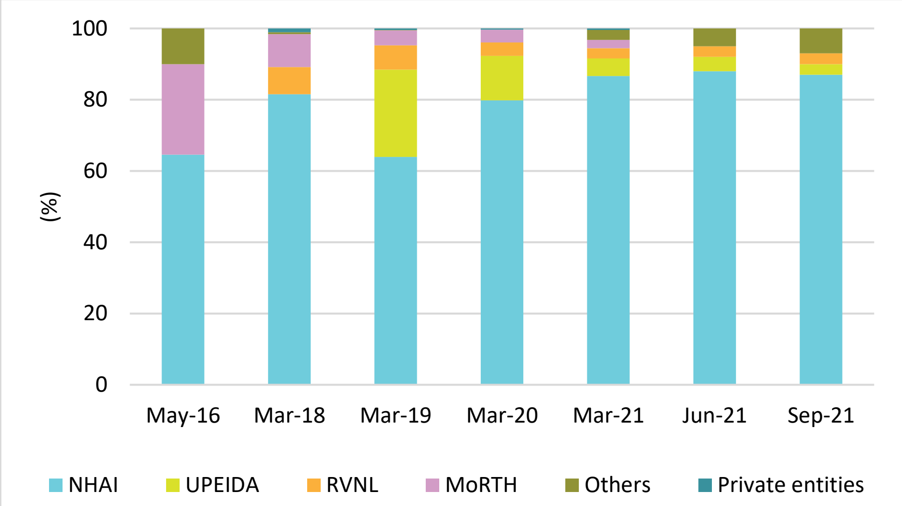
Source: Company, Edelweiss Research

In fact the actual working capital cycle is even lower than this. Like other road developers, GRIL has met part of its share of equity commitment in its HAM projects by giving loans and advances to HAM SPVs (rather than through direct investments). This has artificially ballooned its loans and advances. Adjusting for loans and advances given to HAM SPVs, its net working capital cycle (NWC) is much lower. Over FY12–21, its average adjusted NWC stood at a mere 62 days, among the lowest in EPC space.

A couple of important points to note in this context:

- **Healthy debtors' days attributable to high-quality clients:** Over FY12–21, the company's debtors' days have been 62, on average. The relatively low payment cycle for the company has played a major role in keeping its NWC low. The prime reason behind this is GRIL's high-quality client base.

Exhibit 26: Order book by client (based on value)



Source: Company, Edelweiss Research

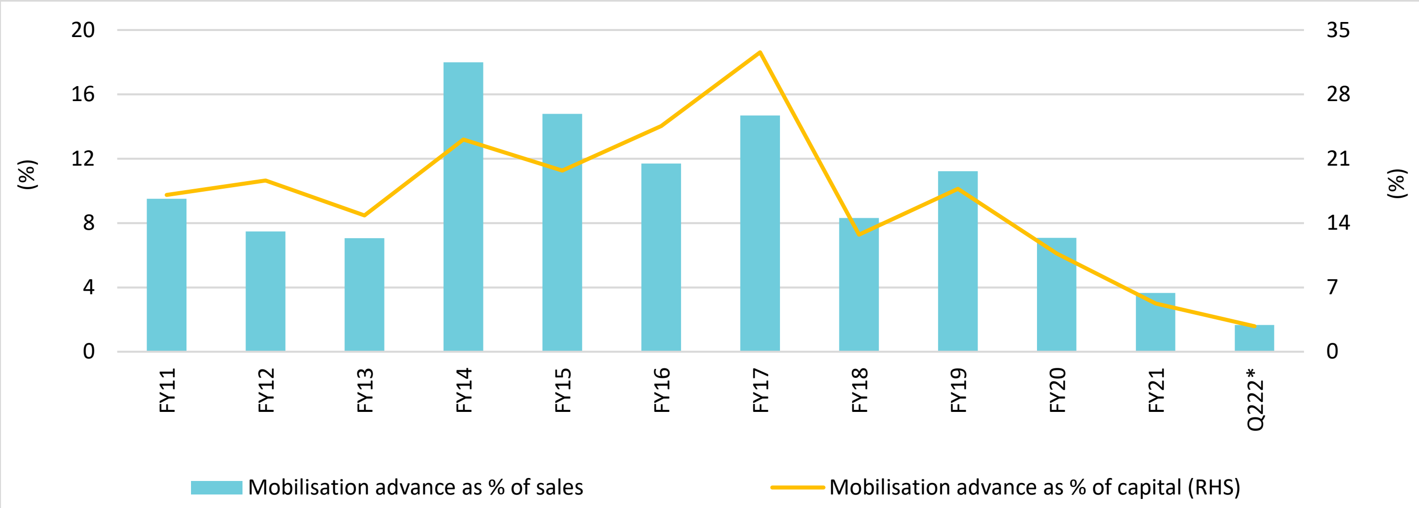
Historically, the bulk of GRIL's orders have accrued from central government agencies such as the NHAI and the Ministry of Road Transport and Highways (MoRTH) in the roads segment and RVNL in the railway segment. Central government agencies have been known for making payments on time, which is not the case with many state government agencies. Even when the company has worked with state government agencies, it has done so with high-quality clients such as UPEIDA, which has been known for fast execution of expressways in Uttar Pradesh.

As a result, the company's payment cycle has been good.

- **Less reliance on mobilisation advances**: Courtesy its strong financial health, GRIL's cost of borrowings (discussed in detail later) is lower than the interest rate, which it has to pay while availing mobilisation advance from government entities. Consequently, the company feels that it is prudent to not take mobilisation advance and instead use working capital loans.

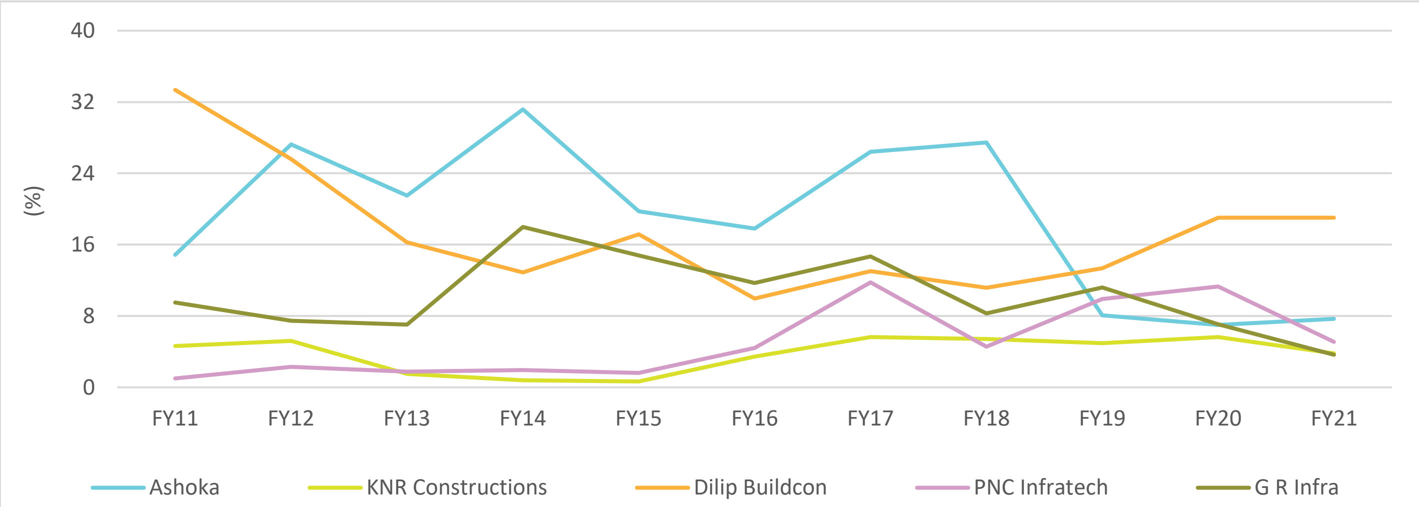
  While this helps GRIL save up on interest cost, it optically increases leverage (due to higher working capital borrowings) as well as working capital cycle (since mobilisation advances are classified as current liabilities). Hence, any comparison of the company's leverage, returns ratios and NWC with other companies needs to be done while keeping these facts in mind.

Exhibit 27: GRIL moving away from high-cost mobilisation advances



Source: Company, Edelweiss Research *Note: * TTM sales have been used for Q2FY22*

Exhibit 28: Comparison of mobilisation advances across companies (as % of sales)



Source: Company, Edelweiss Research

It is clear that while the company's order book is growing, its mobilisation advances are coming down. Lower dependence on high-cost mobilisation advances is thus boosting GRIL's profitability.

G. Strong presence in asset ownership space

GRIL was an early entrant in the asset ownership space. It started off with the BOT-annuity mode initially, winning two NHAI annuity projects - Shillong Bypass and Reengus Sikar – in FY11. Both these projects were completed ahead of schedule.

After getting a foothold, the company ventured into the BOT-toll space, winning the Jodhpur-Pali project from PWD, Rajasthan (acting on behalf of the Government of India). The concession agreement for the project was signed in February 2013.

The company divested its stake in the Shillong Bypass and the Jodhpur Pali project in March 2017 (discussed in detail later).

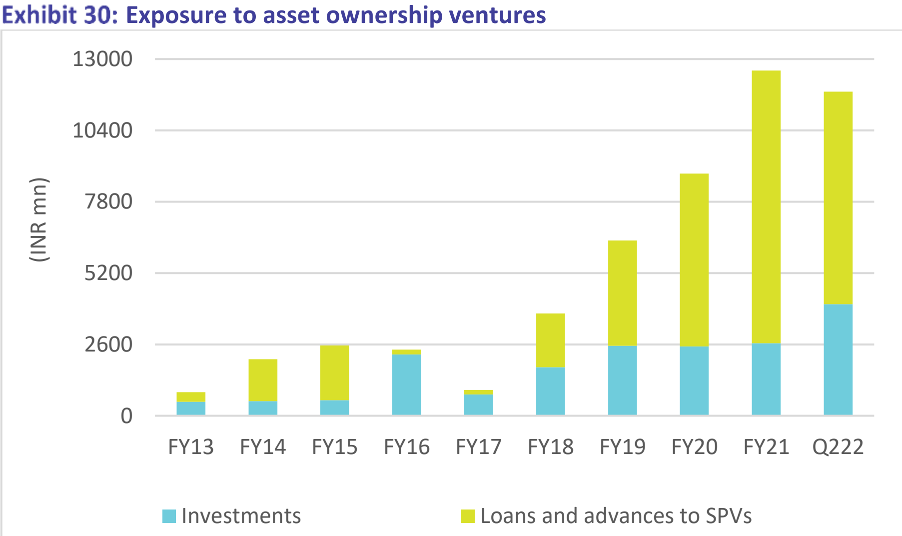
It ventured into the HAM space in FY17 by winning the Phagwara Rupnagar project from NHAI. It hasn't looked back since then and today has amongst the largest asset portfolio in the country. Currently the company has 17 assets (one annuity, 16 HAM) in its portfolio—eight operational projects and two projects under construction while the work is yet to start on the rest of projects.

Exhibit 29: GRIL has among largest asset ownership portfolios in the country

Project	Awarding agency	Project type	Length (km)	Total cost (INR mn)	Debt (INR mn)	Equity (INR mn)	Grant (INR mn)	D/E (x)
Operational projects								
Reengus – Sikar	NHAI	Annuity	44	2,275	1,706	569	0	3.0
Phagwara – Rupnagar	NHAI	HAM	81	12,220	5,400	1,352	5,468	4.0
Nagaur-Mukundgarh and other stretches in Rajasthan	PWD Rajasthan	HAM	394	8,384	2,356	1,347	4,681	1.7
Handia – Varanasi	NHAI	HAM	72	22,300	9,920	2,592	9,788	3.8
Porbandar – Dwarka	NHAI	HAM	118	14,800	6,720	1,716	6,364	3.9
Gundugolanu - Devarapalli – Kovvuru	NHAI	HAM	70	17,158	7,880	1,970	7,308	4.0
Akkalkot – Solapur	NHAI	HAM	39	7,406	3,340	838	3,228	4.0
Sangli – Solapur	NHAI	HAM	46	8,779	3,960	991	3,828	4.0
Under Development projects								
Dwarka (Kuranga) – Khambhaliya – Devariya	NHAI	HAM	72	10,215	4,580	1,231	4,404	3.7
Aligarh-Kanpur	NHAI	HAM	71	20,616	9,300	2,516	8,800	3.7
Awaiting AD								
Ena to Kim (Vadodara-Mumbai Expressway Pkg 6)	NHAI	HAM	37	20,009	8,910	2,349	8,750	3.8
Shirsad to Masvan (Vadodara-Mumbai Expressway Pkg 13)	NHAI	HAM	27	25,222	11,229	3,003	10,990	3.7
Bahadurganj- Araria	NHAI	HAM	45	9,879	4,400	1,152	4,327	3.8
Galgalia- Bahadurganj	NHAI	HAM	49	9,513	4,200	1,109	4,204	3.8
Bilaspur-Urga	NHAI	HAM	70	15,270	7,250	1,912	6,108	3.8
New projects								
Tiba - Moga Jalandhar Road	NHAI	HAM	39	9,270	4,400	1,162	3,708	3.8
Manewal – Rupnagar	NHAI	HAM	38	9,510	4,500	1,206	3,804	3.7

Source: Company, Rating agencies, Edelweiss Research estimates

Exhibit 30: Exposure to asset ownership ventures



Source: Company, Edelweiss Research

Note: Reduction in exposure in FY17 pursuant to stake sale in two BOT projects

The company had invested ~INR11.8bn in its HAM/BOT projects at the end of Q2FY22; it had to infuse additional ~INR13.7bn funds in its HAM projects.

With its history of financial innovation (discussed in detail later), the asset portfolio is likely to result in significant value creation for the company going ahead.

H. GRIL's cash flow generation is robust …

Many infra companies face the issue of high working capital requirements leading to muted or, in some cases, even negative operating cash flow. On top of it, capex needs and investment in asset ownership ventures mean that debt levels rise steadily. This leads to sub-optimal return ratios for many EPC companies.

However, GRIL has bucked this trend consistently—a combination of: i) strong revenue growth; ii) improving margin trajectory; and iii) efficient working capital management has led to robust cash flow generation by the company.

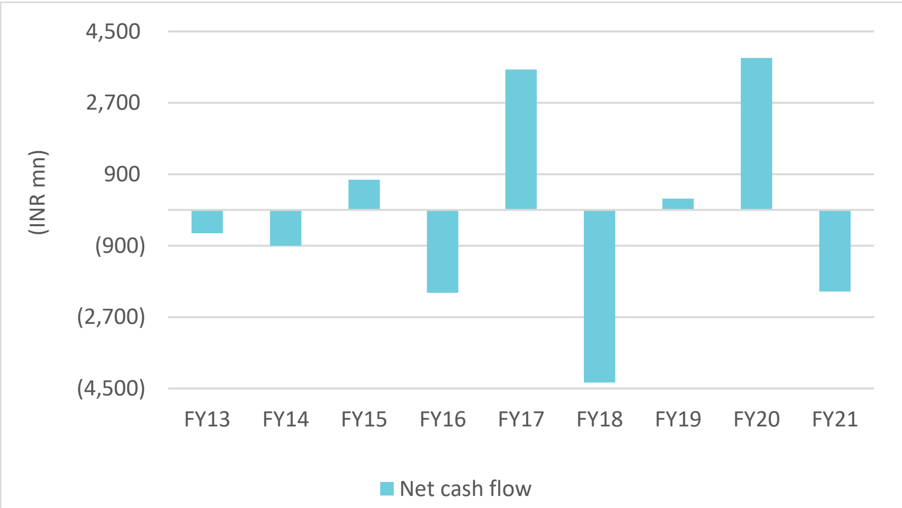
GRIL's growth has been robust despite minimal equity fund raise

Consequently, the company has been able to fund its growth largely through internal accruals. It has raised equity capital only once in its history: ~INR800mn from India Business Excellence Fund (IBEF) and IDFC Investment Advisors (IDFC) in 2011. While IDFC exited its stake in December 2015, IBEF exited at the time of the IPO.

We analyse the company's cash flows in detail below.

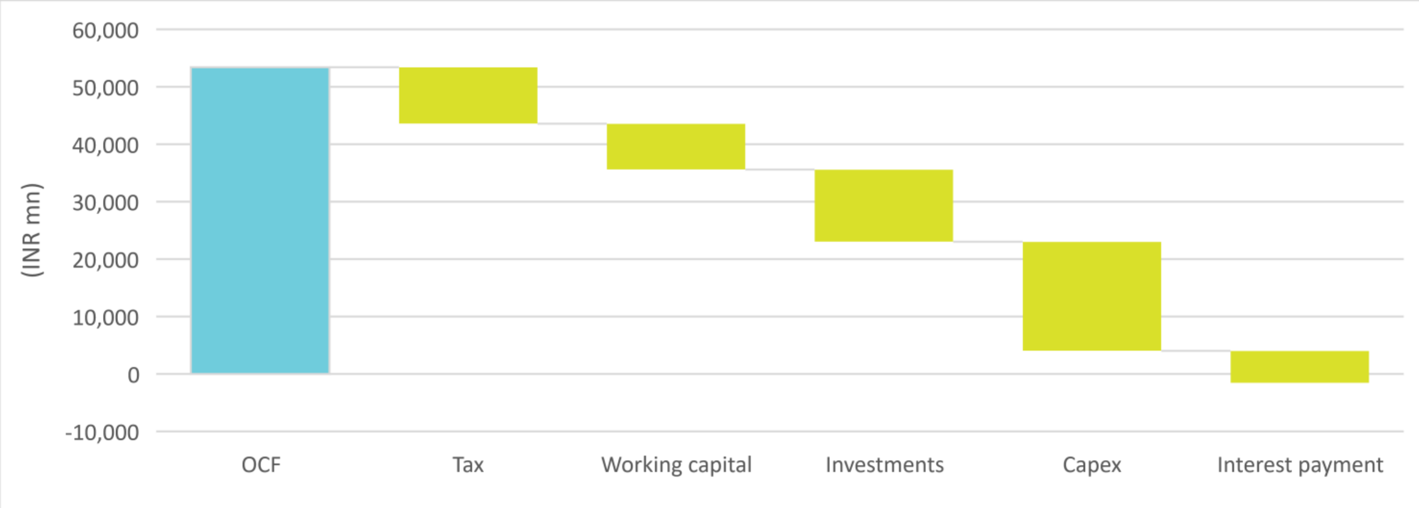
- We have taken out loans given to subsidiaries from the company's working capital requirements and added them to investments; to the extent, working capital needs reduced while investments increased.
- We have compared fund inflows (operating cash flows before working capital changes) against outflows (working capital, capex, investments, interest and tax payments) to arrive at net cash flows.

Exhibit 31: GRIL has largely been self-sufficient in funding growth



Source: Company, Edelweiss Research

Exhibit 32: Fund requirements over FY13–21 met largely through internal accruals



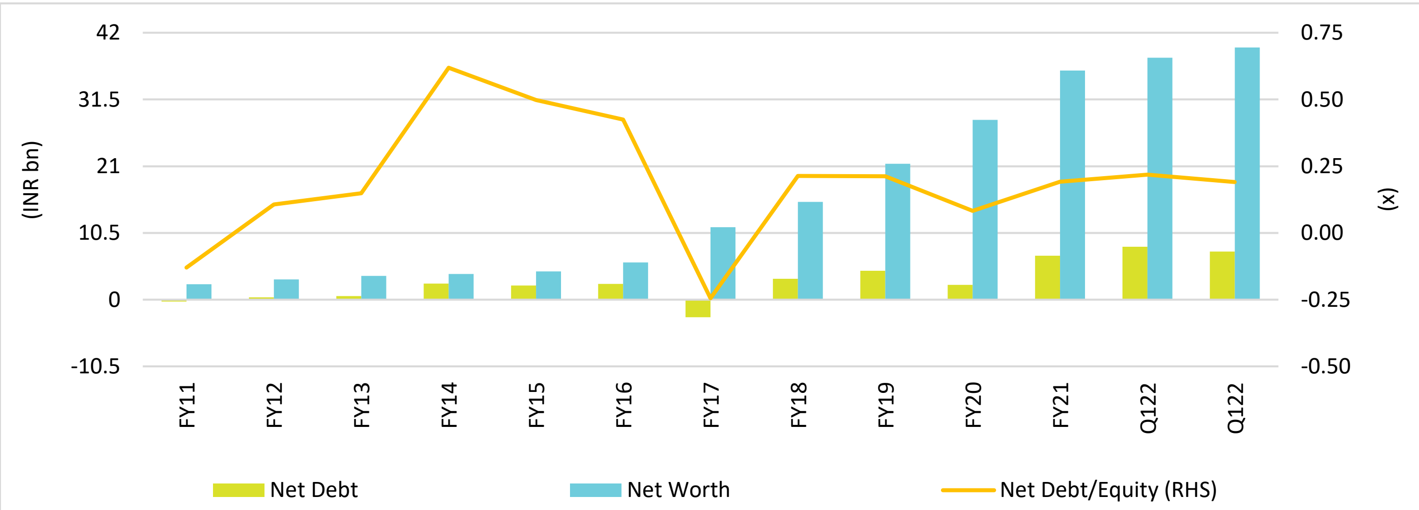
Source: Company, Edelweiss Research

Our analysis indicates the company has been able to largely meet its fund requirements from internal accruals; this is the reason that its leverage levels (net debt:equity at 0.2x at end-Q2FY22) remains comfortable despite stupendous growth over the past decade and that too, with minimal equity raise.

I. …leading to healthy leverage and return ratios

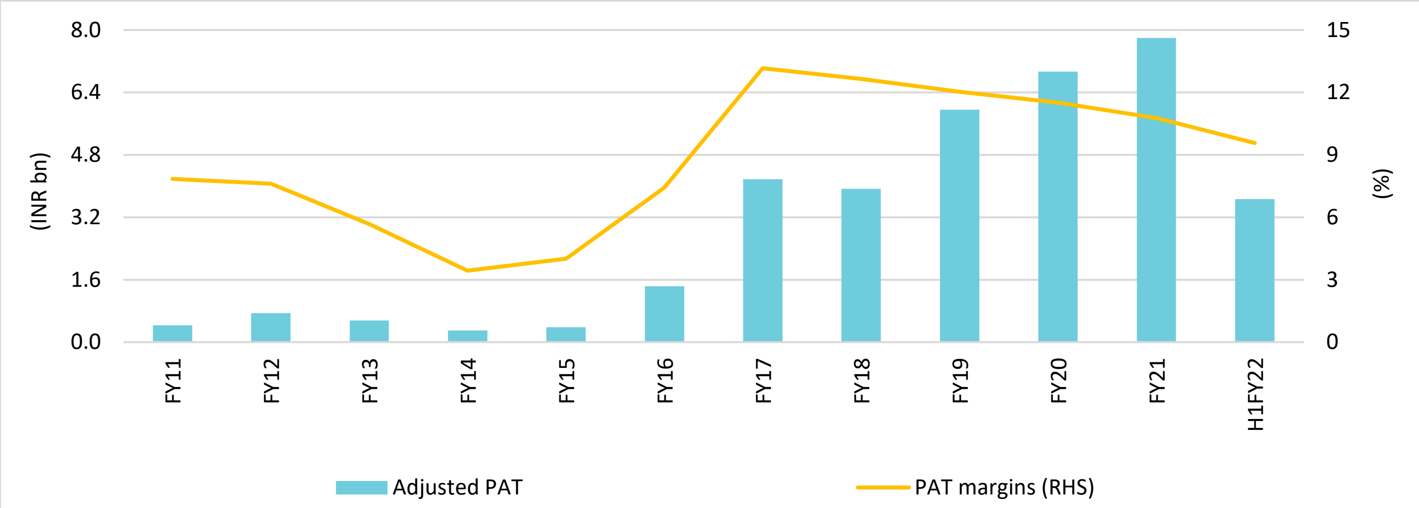
Buoyed by its strong cash flows, GRIL has been able to keep debt low despite steady growth in the scale of operations over the last decade. This in turn has aided its profitability and allowed it to post robust return ratios.

Exhibit 33: Low leverage for GRIL…



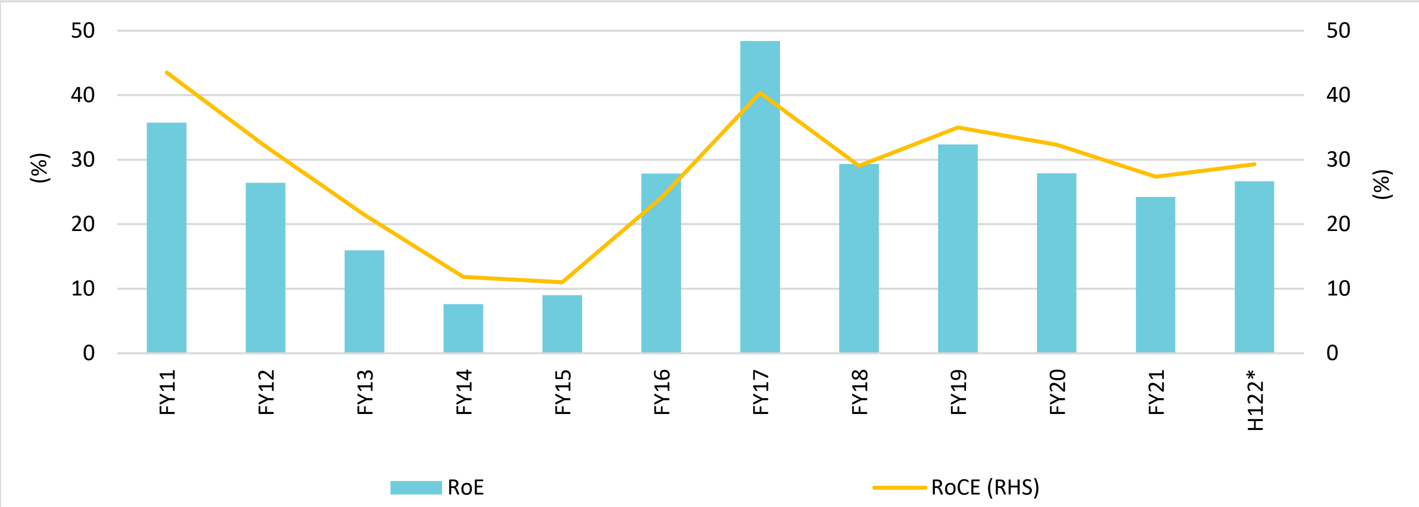
Source: Company, Edelweiss Research

Exhibit 34: …boost PAT growth/margins…



Source: Company, Edelweiss Research

Exhibit 35: …and lead to healthy return ratios



Source: Company, Edelweiss Research

*Note: * TTM figures used for H1FY22*

The company's leverage, PAT margins and returns ratios are among the best in the EPC space. This places it at the top of heap, as far as quality of growth is concerned, in our view. And it also manifests in its credit rating of "AA", among the highest in the EPC space.

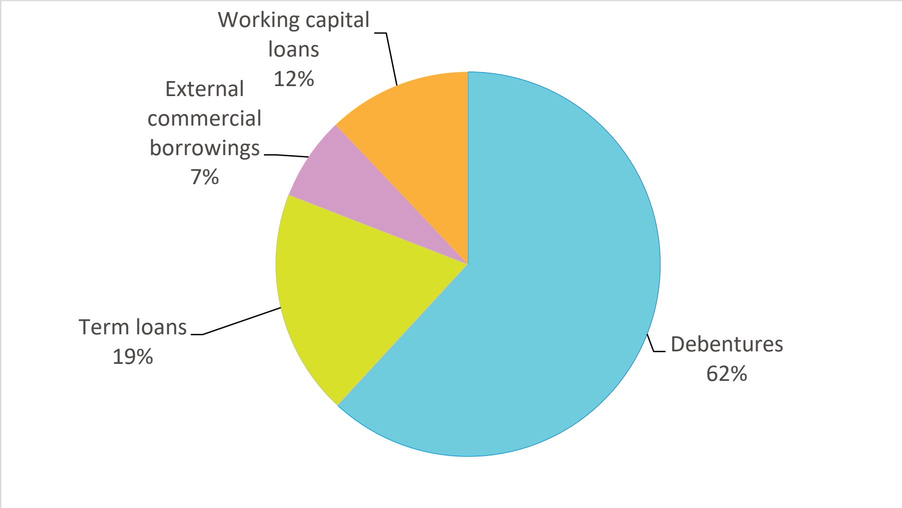
J. Financial innovation the icing on the cake

GRIL's expertise is not restricted to just operational parameters; it extends to the financial domain as well. The company has complemented its robust operational performance with financial innovation. This has further enhanced its value proposition.

This has been achieved through:

- Optimising the debt structure: Due to its excellent credit rating, the company is able to raise low-cost debt through NCDs; this option is not available to many of its peers. For e.g. GRIL recently raised NCDs at a coupon of 6.2–6.7%.

Exhibit 36: Significant use of NCDs (split of standalone debt)



Source: Company, Edelweiss Research

This has helped the company reduce its blended borrowing cost.

- Using low-cost loans: To reiterate, GRIL prefers to take low cost working capital loans instead of high-cost mobilisation advances. This option is not available to peers whose leverage level/ working capital limit utilisation is high.

- Timely asset monetisation: In March 2017, the company had sold majority equity stakes in two BOT road assets (Jodhpur Pali Expressway and Shillong Expressway) for an enterprise value of INR8bn to IDFC Alternatives' India Infrastructure Fund. Against an initial equity infusion of ~INR1.9bn, the sale fetched the company ~INR3.4bn, translating into 1.8x P/BV. This helped GRIL reduce its exposure to the asset ownership business from INR2.2bn in FY16 to ~INR0.8bn in FY17.

GRIL has a history of 'value creation' through financial engineering

- Refinancing of BOT/HAM assets: In July 2016, the company refinanced the term loan availed by its SPV Reengus Sikar Expressway at a lower interest rate. The outstanding bank loan was refinanced with a fixed interest rate NCD issue (coupon of 8.1%), thereby eliminating interest rate risk.

- Equity top-up: For its Varanasi-Handia HAM project, the company has done significant value engineering. Post project-completion, the credit rating improved from 'A' (Care) to 'AAA' (India Ratings). The company refinanced its existing term loan and replaced it with NCDs and a new rupee term loan (RTL).

  The total debt raised was ~INR11.25bn; of this, ~INR9.5bn was to be used for repayment of existing loan and the balance INR1.75bn towards part repayment of the sponsor loan and the creation of a DSRA.

  This transaction had multiple benefits for the company:

  - The interest cost came down with the NCDs having a borrowing cost of 6.8%
  - The interest rate on both the NCDs and the RTL is linked to repo rate; this eliminates interest rate risk since annuity payments from the NHAI are also linked to the bank rate (which in turn is linked to repo rate). Consequently, it removes the risk of a divergence in movement between the bank rate and lending rates of banks, which had been an issue with HAM projects awarded as per the old model concession framework.
  - The company was able to take out equity to the extent of ~INR1.25bn; considering that the equity infused in the project was ~INR2.6bn, the

company has nearly taken out half of equity, that too within four years of work on the project starting.

Through these financial innovations, the company has: i) reduced its leverage; ii) lowered its borrowing costs; iii) raised resources for infusing equity in future projects; and iv) improved equity IRRs for its projects. This has improved its value proposition in a significant way.

Going ahead, the company can monetise its HAM assets through: i) outright sale; ii) equity top-up; and iii) InViT. In fact, media articles indicate that GRIL plans to float its InvIT by early next year, targeting an EV of USD2bn and equity value of ~INR37bn.

We believe potential monetisation of its HAM assets will be a significant growth driver for the company and a key catalyst for the stock.

Valuation

- GRIL's strong execution capabilities and leadership in the roads space provide comfort on its earnings growth trajectory. Besides, its robust cash flow and lean balance sheet ensure that balance sheet is not a concern.
- While earnings growth is lower than smaller peers such as KNR Constructions (KNR) due to GRIL's large scale of operations, its return ratios are better.
- We expect the company to trade at multiples similar to that of KNR, and thus ascribe it 22x FY23E P/E; we also assign a P/BV of 1–1.2x to its HAM/BOT projects. Initiate with 'BUY' and TP of INR2,083.

We are initiating coverage on G R Infraprojects with '**BUY/Sector Neutral** recommendation/rating**.** Our target price of INR2,083 is based on an SoTP-valuation. We believe order-wins and segmental diversification will be the key determinants of the stock movement going ahead.

Key assumptions

- P/E of 22x based on FY23E earnings (in line with KNR)
- P/BV of 1x for HAM projects based on old concession agreement
- P/BV of 1.2x for HAM projects based on new concession agreement

Exhibit 37: SoTP valuation

Segments	Basis	Multiple (x)	Equity value (INR mn)	Value per share (INR)	% of total
BOT/HAM projects					
Older HAM/annuity projects	P/BV	1.0	22,385	232	11.1
New HAM projects	P/BV	1.2	5,554	57	2.8
Value from BOT/HAM projects			27,939	289	13.9
Pending equity investment at FY23E end			4,125	43	
Net value from BOT/HAM projects			23,815	246	11.8
EPC business	FY23E P/E	22.0	199,254	1837	88.2
Total value per share				2,083	100.0

Source: Edelweiss Research

We argue a 22x P/E as fair for GRIL based on the following factors:

- Leadership in roads space
- Strong execution skills with a healthy margin trajectory
- Robust cash flows with growth largely funded through internal accruals
- Best-in-class return ratios
- The multiple is in line with KNR Constructions, which has a similar balance sheet and return ratios.

These factors contrast with a few cons:

- High dependence on a single segment (roads).
- Large scale of operations, which makes the company susceptible to any slowdown in road project award.
- Moderation in growth and return ratios due to a large base.

Exhibit 38: Valuation comparison

Company	Market cap	PAT CAGR (%)	Diluted P/E (x)*		EV/EBITDA (x)*		ROAE (%)		Net debt/equity (x)	
	(INR bn)	(FY21-FY23)	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
GRIL	170.2	5	18.7	15.7	11.4	9.7	19.1	18.8	0.2	0.1
KNR	39.4	17	20.2	17.2	10.7	9.6	16.2	16.2	0.1	0.1
PNC Infra	77.0	16	11.4	12.9	6.4	6.0	16.2	15.2	-0.1	0.0
Ashoka Buildcon	28.3	2	3.5	3.4	3.7	3.4	13.2	12.1	0.1	0.1

Source: Bloomberg, Edelweiss Research

*Note: * implied EPC biz valuation*

Note: For GRIL, FY21 EBITDA included ~INR2.1bn bonus

Comparative Analysis

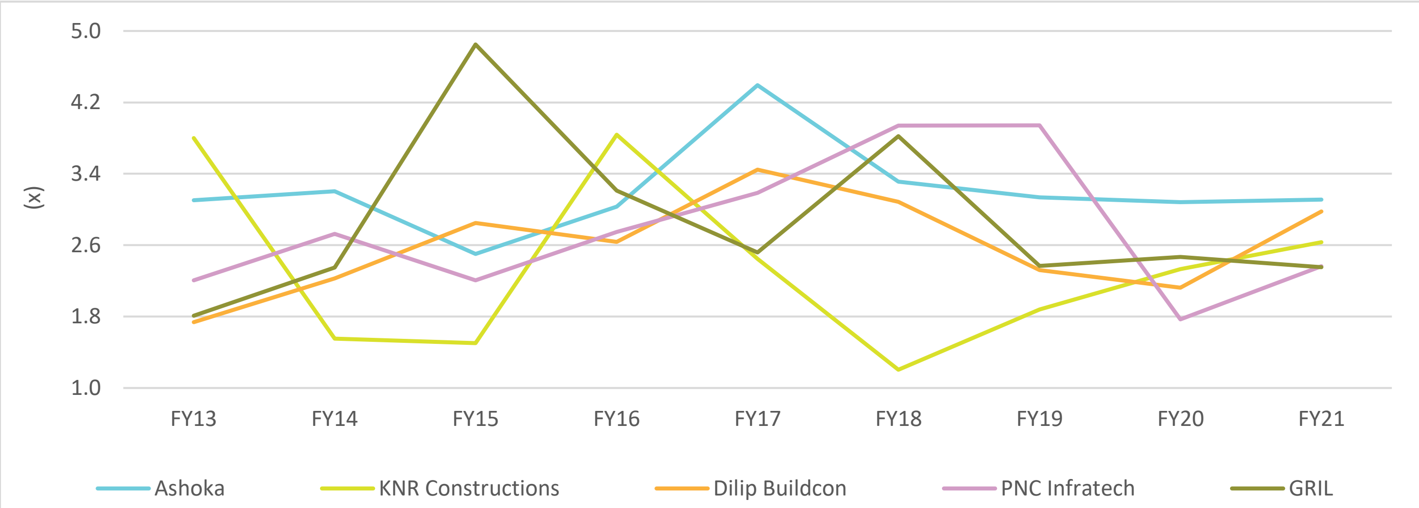
- GRIL's large scale of operations has resulted in a lower book-to-bill compared with peers; it makes up for this by among-the-highest EBITDA and PAT margins.
- Return ratios are among the highest in peers, even though its working capital cycle falls in the middle of the heap.
- Leverage history is scant considering GRIL has raised minimal equity (only ~INR800mn in 2011).

GRIL performs well on all operational parameters

Earlier in the report, we compared GRIL's performance on revenue, EBITDA and PAT with its peers in the roads segment; we had also showed its dependence on the mobilisation front is lower than peers.

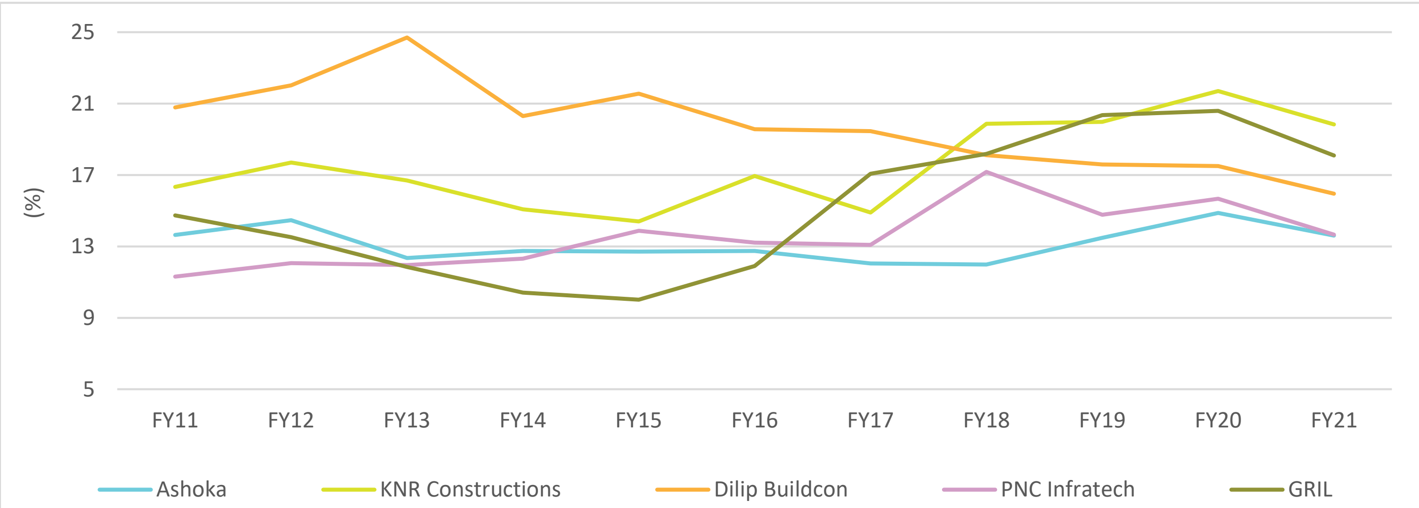
We now compare the company with other road players on some other parameters.

Exhibit 39: GRIL's larger revenue base keeps its book-to-bill relatively low



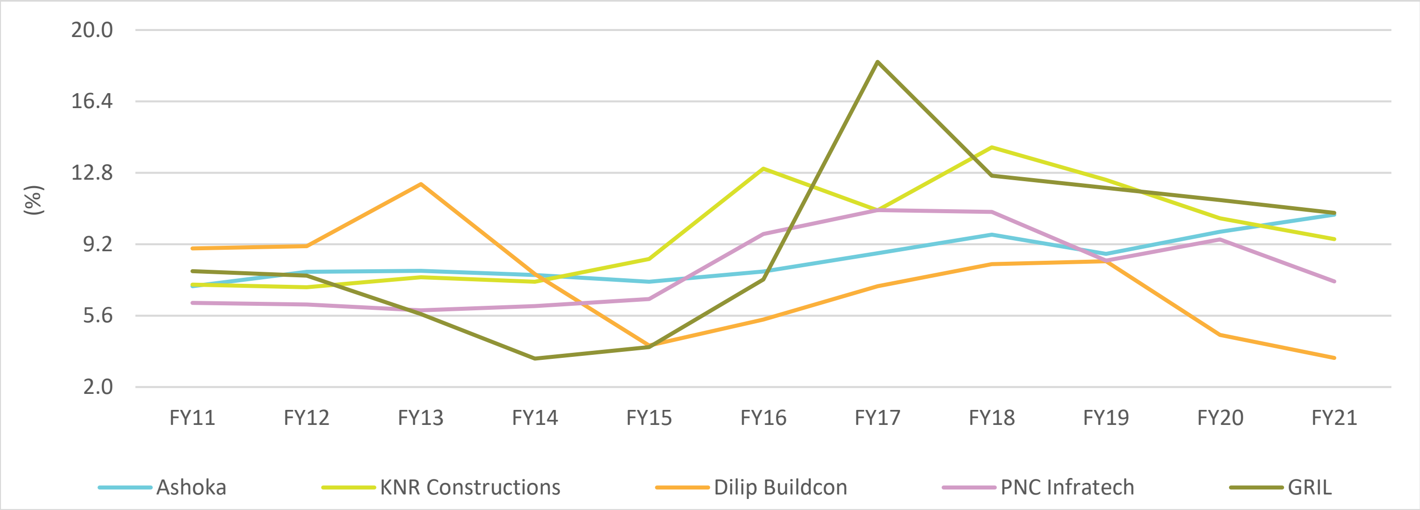
Source: Company, Edelweiss Research

Exhibit 40: GRIL and KNR have relatively high EBITDA margins



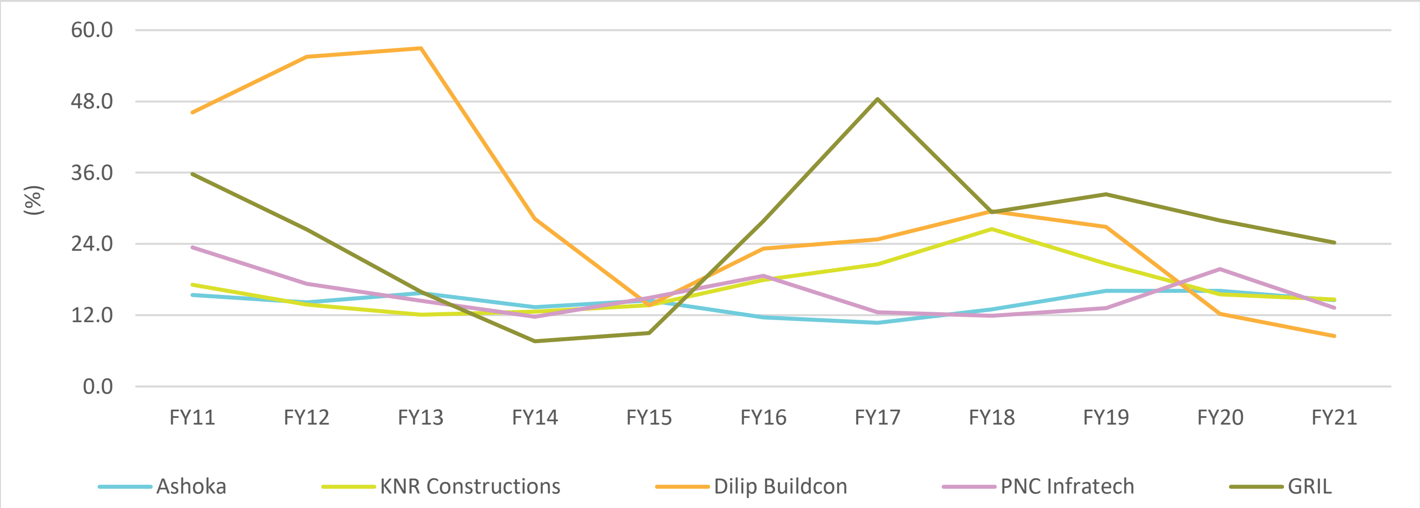
Source: Company, Edelweiss Research

Exhibit 41: GRIL boasts highest PAT margin



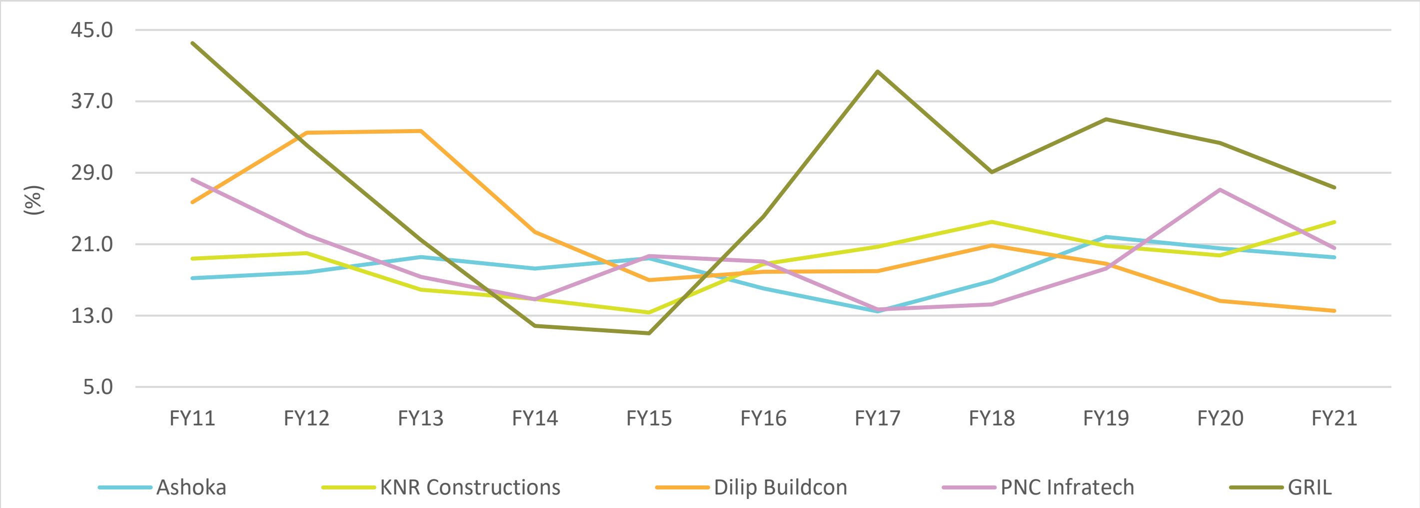
Source: Company, Edelweiss Research

Exhibit 42: GRIL's RoAs are among the highest...



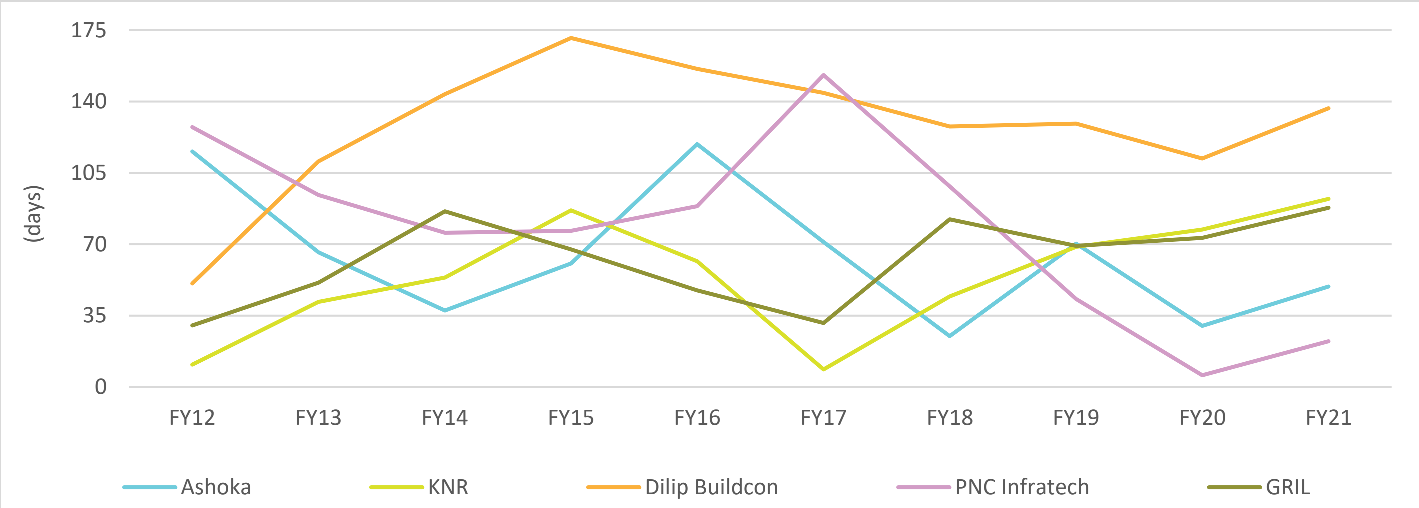
Source: Company, Edelweiss Research

Exhibit 43: ...and so is its RoCE



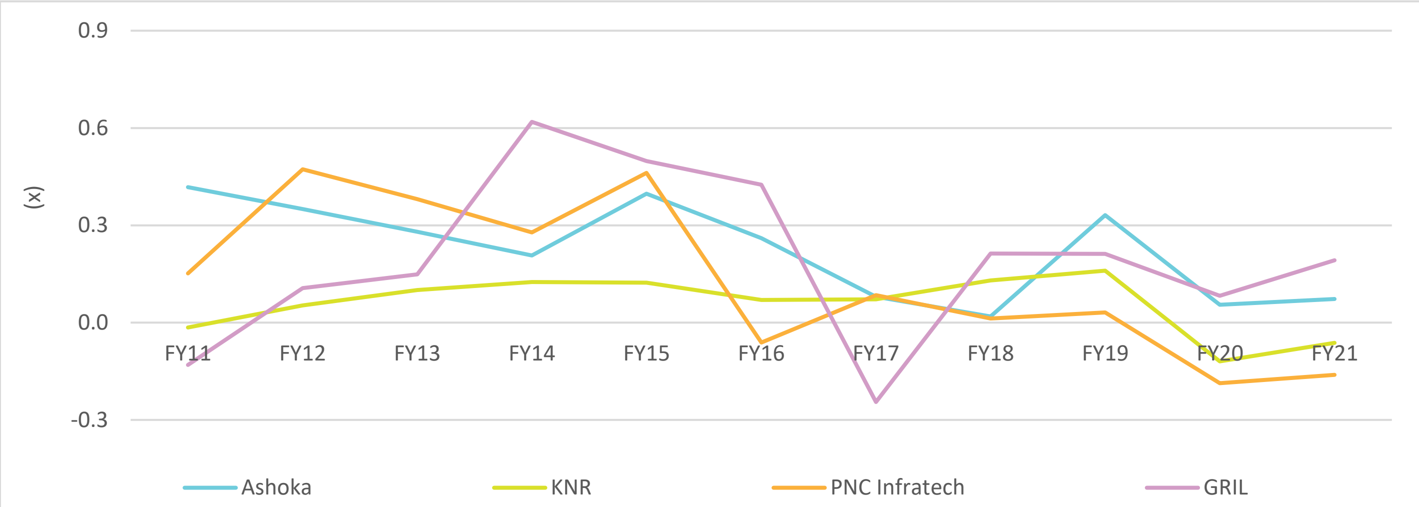
Source: Company, Edelweiss Research

Exhibit 44: GRIL's net working capital cycle falls in the middle of the heap



Source: Company, Edelweiss Research

Exhibit 45: Unlike peers, GRIL has raised minimal equity capital, and so its leverage history (net debt:equity) is scanty



Source: Company, Edelweiss Research

Financial Outlook

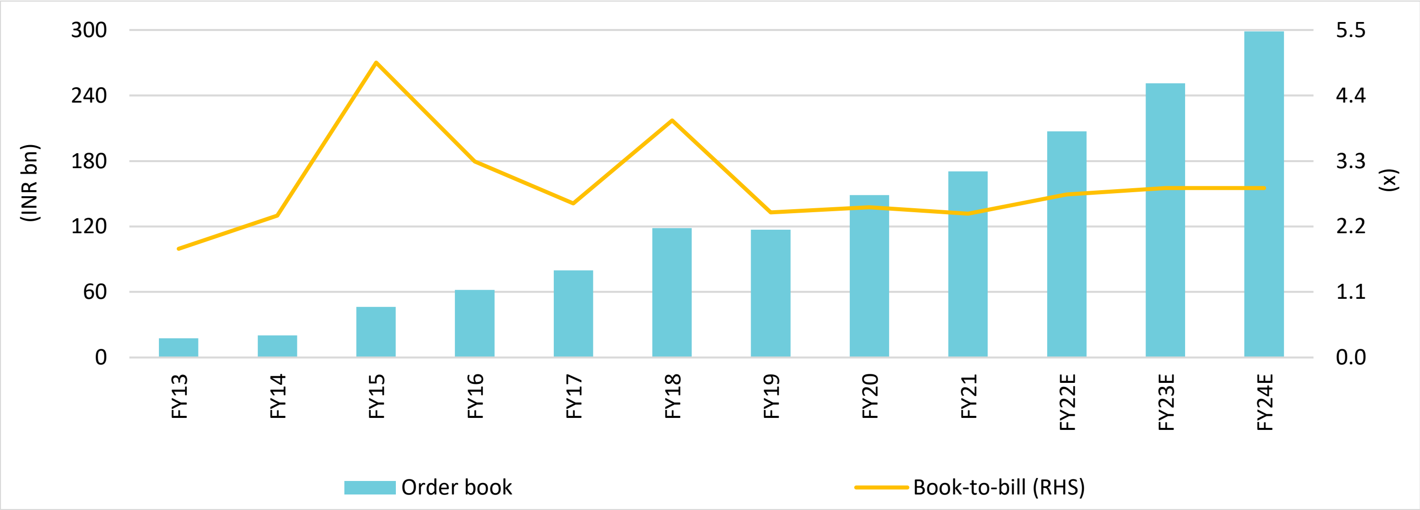
- We estimate GRIL's order intake would increase at an 18% CAGR over FY21–24 and its order book would reach ~INR300bn by FY24E.
- 'Appointed dates' for ~INR77bn projects expected over Q3/Q4FY22 while pace of execution would improve in FY23. GRIL to post a 14% revenue CAGR over FY21–24E.
- We expect EBITDA/PAT margin to moderate to ~17%/~10% and a PAT CAGR of ~12% over FY21–24E. Working capital cycle should remain stable.
- Strong operating cash flow will keep debt levels under check. We expect the return ratios to remain healthy with RoEs likely to settle in high teens.

Steady growth in order book, execution and profitability expected

We estimate GRIL's order intake to increase at an 18% CAGR over FY21–24; this will be aided by: i) an increase in road ordering with NHAI asset monetisation trajectory likely to pick up; and ii) the company's increasing penetration in non-road segments.

We expect the company's order book to reach ~INR300bn by FY24E.

Exhibit 46: GRIL's order book to improve steadily

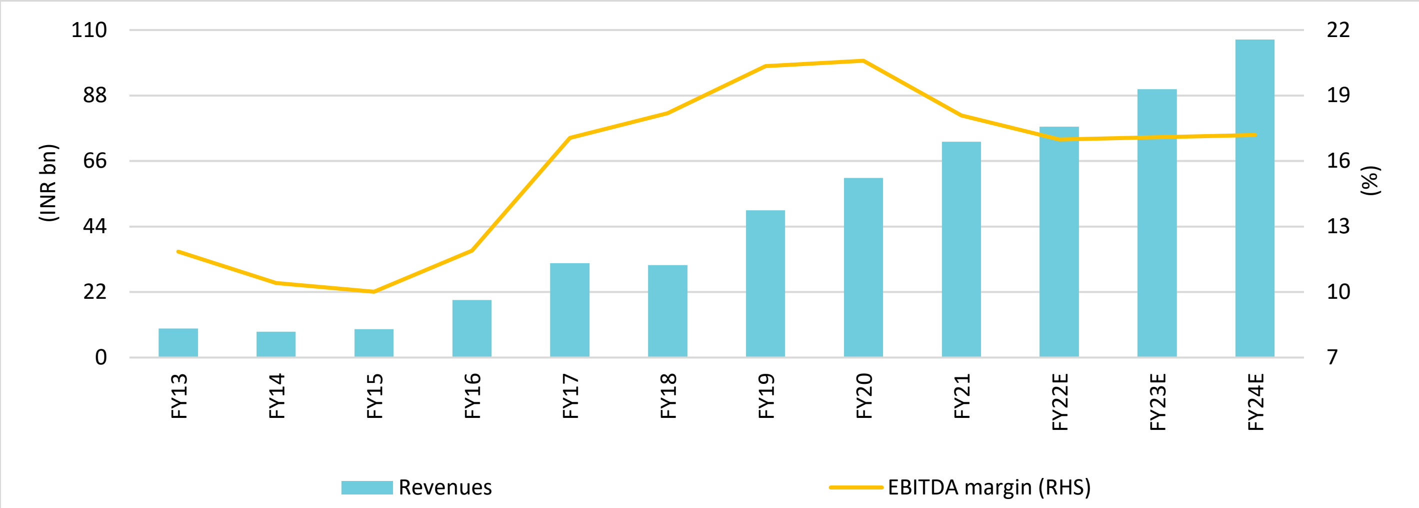


Source: Company, Edelweiss Research

Out of GRIL's ~INR158bn order book at end-Q2FY22 (excluding L1 projects), the work is yet to start on five HAM projects with an EPC cost of ~INR77bn. We expect 'appointed dates' for these projects over Q3/Q4FY22 and the pace of execution to improve in FY23.

Consequently, we expect moderate YoY growth in execution during FY22E and expect top line to improve rapidly over FY23/24E as work on these project gathers traction. We expect GRIL to post a 14% revenue CAGR over FY21–24E.

Exhibit 47: Top line growth to gather pace starting FY23E



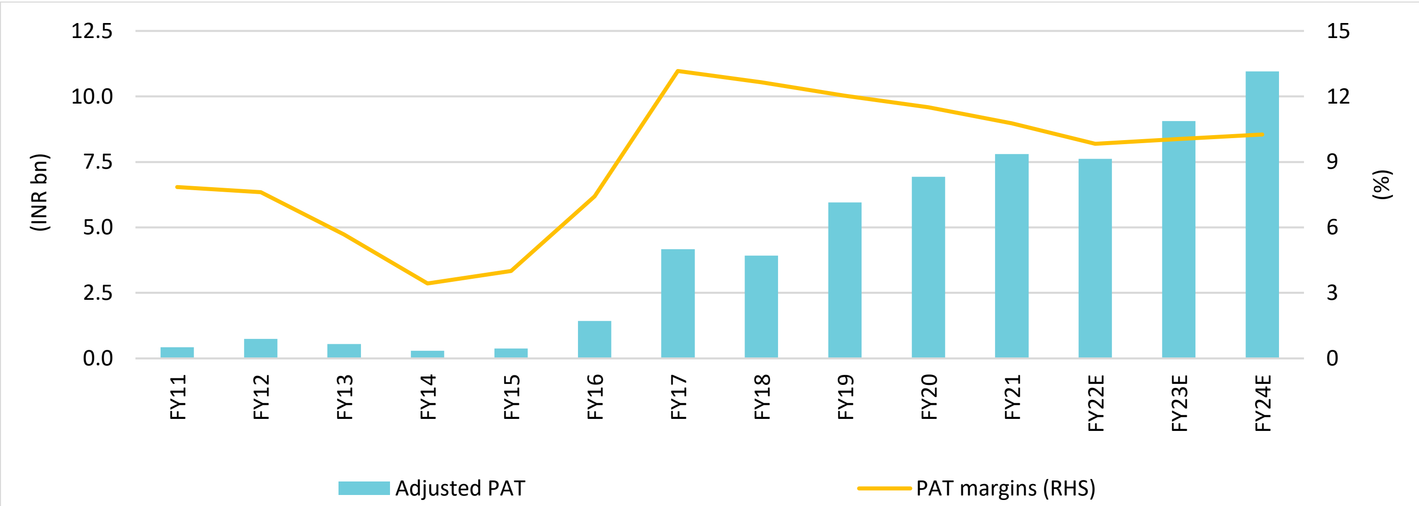
Source: Company, Edelweiss Research

We expect a bit of moderation in EBITDA margins due to (a) lower early completion bonus going ahead due to change in execution timelines for HAM projects and (b) commodity price pressures. Nevertheless, we believe GRIL will still be able to maintain healthy EBITDA margins of ~17%.

PAT margins to moderate

In line with the company's operating margins, we expect its PAT margins to also moderate going ahead; they will nevertheless remain healthy at ~10% levels.

Exhibit 48: PAT margins to remain broadly stable



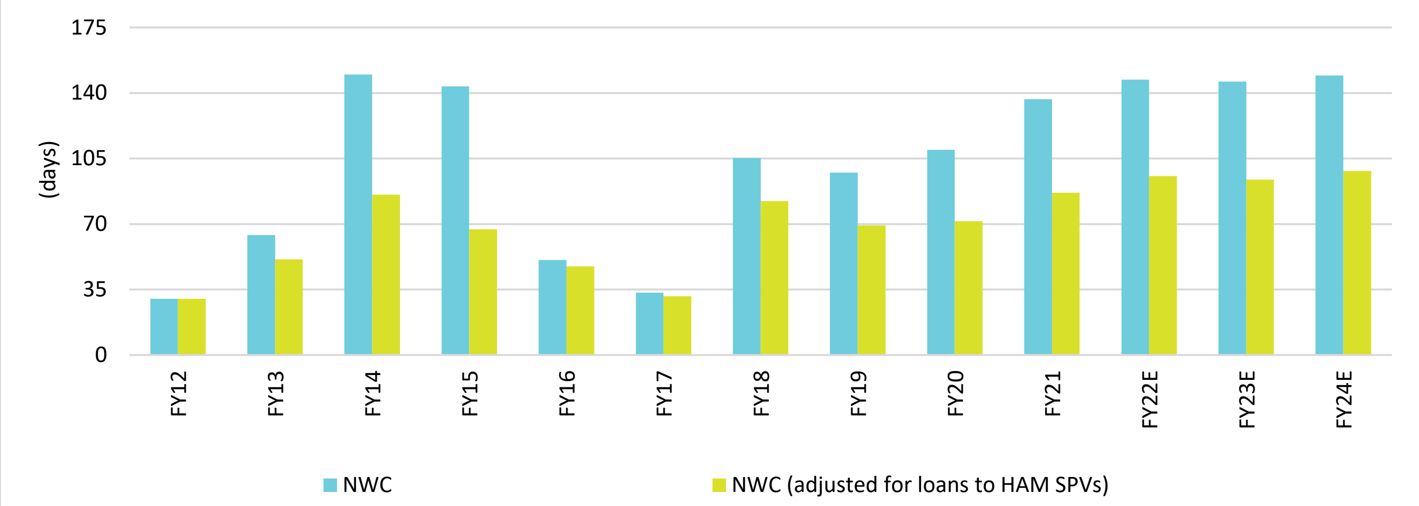
Source: Company, Edelweiss Research

This will be without taking into account any financial engineering like asset monetisation or debt refinancing; in case the company monetises its assets, its leverage levels can decline, boosting PAT margins.

Working capital cycle to remain under control

We expect GRIL's net working capital cycle to remain steady at current levels.

Exhibit 49: Net working capital cycle to stay healthy



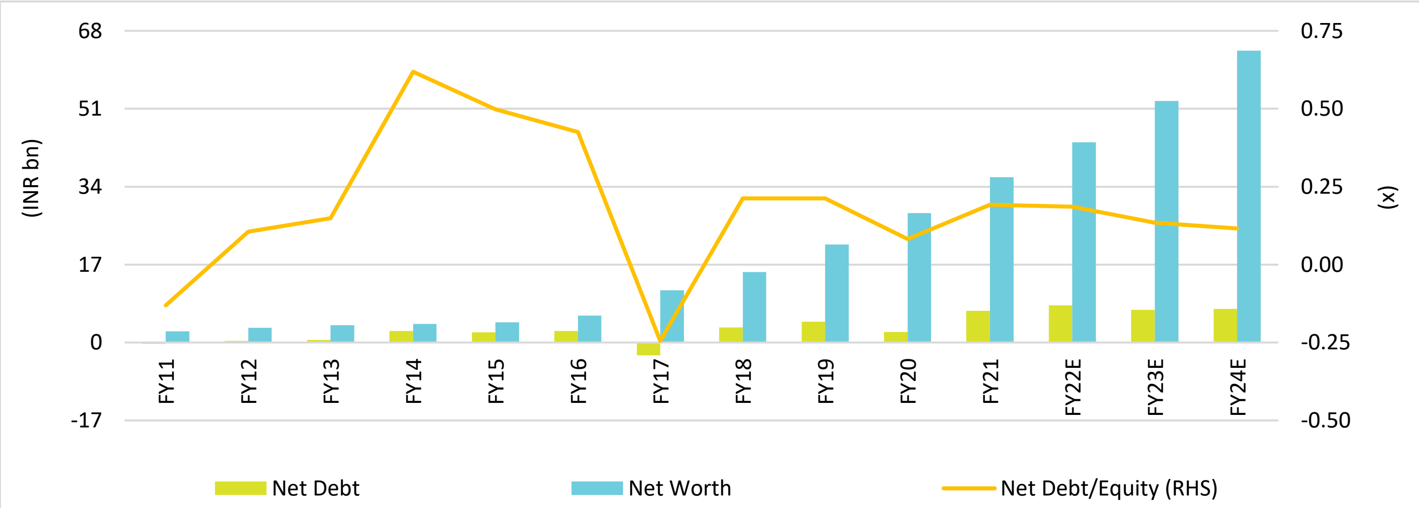
Source: Company, Edelweiss Research

As the company infuses funds in its HAM projects by giving loans to its HAM SPVs, the absolute net working capital cycle will go up; however, adjusting for loans to subsidiaries, the net working capital cycle should remain stable going ahead.

Leverage levels to decline

We expect GRIL's net debt to equity to fall marginally going ahead. This will be driven by improvement in operating cash flows as execution picks up post-FY22E.

Exhibit 50: Leverage ratios to decline marginally



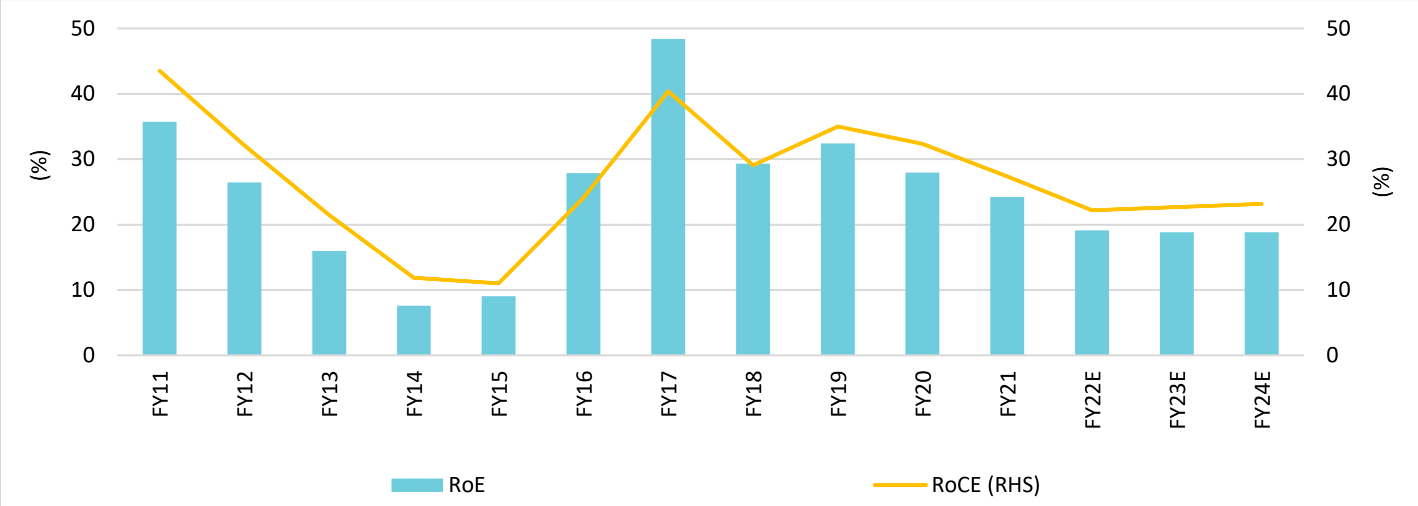
Source: Company, Edelweiss Research

Over and above this, the company can generate funds through asset monetisation/refinancing. This should aid in debt reduction, in our view.

Return ratios to remain healthy

We expect GRIL's return ratios to remain strong going ahead.

Exhibit 51: Return ratios likely to remain robust



Source: Company, Edelweiss Research

We believe the company's RoEs will settle in the high teens going ahead. This will enable it to fund its growth without putting pressure on its balance sheet.

Key Risks

Covid-19 related uncertainty

The pandemic impacted ordering and execution adversely in Q1FY21 and Q1FY22. Any resurgence in the number of cases might dampen project awards as it adversely impacts government revenues.

Lack of progress on asset monetisation

In case GRIL is unable to monetise its HAM assets, its leverage could increase, and consequently the risk perception about the company.

Segmental concentration in roads

Majority of GRIL's order book is concentrated in the roads segment. This exposes the company to risk of a slowdown in road project awards and higher competition in the roads space, not to mention lack of growth options due to market share in the segment hitting a ceiling.

Company Description

GRIL is an integrated road EPC company with experience in design and construction of various road/highway projects across 15 states in India. The company has lately diversified into projects in the railway sector. Its principal business operations are broadly divided into three categories: i) civil construction activities, under which it provides EPC services; ii) development of roads, highways on a BOT/HAM basis; and iii) manufacturing activities, under which it processes bitumen, manufactures thermoplastic road-marking paint, electric poles and road signage and fabricate and galvanize metal crash barriers.

The company was incorporated in December 1995. Prior to that, the individual promoters were associated with M/s Gumani Ram Agarwal, a partnership firm involved in the construction business, which was taken over by the company in 1996.

The company has gradually increased its execution capabilities in terms of the size of projects that it bids for and executes. It has, over the years, developed an established road EPC business and has gradually added facilities to support and supplement its road construction business.

As part of its in-house integrated model, GRIL has developed in-house resources with key competencies to deliver a project from conceptualization to completion that includes its design and engineering team, three manufacturing units at Udaipur (Rajasthan), Guwahati (Assam) and Sandila (Uttar Pradesh) for processing bitumen, thermoplastic road-marking paint and road signages, and a fabrication and galvanization unit at Ahmedabad (Gujarat) for manufacturing metal crash barriers and electric poles.

History

Exhibit 52: Corporate journey and milestones

Year	Milestone Achieved
1996	Received certificate for commencement of business Take-over of business of the then existing partnership firm M/s Gumani Ram Agarwal
1997	Won and executed the first road project worth ₹ 265.0 Lakhs received from Public Works Department, Rajasthan
2001	Forayed into the field of development of infrastructure projects
2006	Established a centralized workshop with fabrication facilities at NH 8, Balicha Bypass, Udaipur, for reducing equipment downtime
2007	Changed the of name of the Company to G R Infraprojects Limited
2009	Commenced operations at the bitumen emulsion/ PMB manufacturing unit at Kaladwas, Udaipiur in Rajasthan, having annual installed capacity of 30,000 MT
2010	Commissioned a 1.25 MW wind power plant at Jaisalmer, Rajasthan
2011	Investment by India Business Excellence Fund I, India Business Excellence Fund and IDFC Investment Advisors Limited in the form of subscription to equity shares
2013	Completed construction of the Shillong Bypass Project, approximately 10 months prior to the scheduled date of completion
2014	Commenced operations at the second bitumen emulsion manufacturing unit at Aminagaon, Guwahati at Assam, having annual installed capacity of 30,000 MT
2015	Commenced operations at the fabrication and galvanisation unit for metal crash barriers at Ahmedabad, Gujarat having installed capacity of 24,000 MT
2016	Won the first hybrid annuity project of the company awarded by NHAI with a Bid Project Cost of ₹ 13,670 million
2017	Sale of controlling stake in two erstwhile subsidiaries of the company namely Jodhpur Pali Expressway Limited and Shillong Expressway Limited
2018	Won the first railway project
2019	Commenced operations at the third bitumen emulsion manufacturing unit at Sandila, Hardoi in Uttar Pradesh Completed the 393 km Nagaur Mukundgarh HAM project ~13 months ahead of schedule
2020	Completed first NHAI HAM project for the four laning of Phagwara – Rupnagar section of NH-344A Commenced Bitumen Emulsion unit at Lucknow, Uttar Pradesh Addition of pole manufacturing unit at Ahmedabad, Gujarat
2021	Listing of the equity shares of the company

Source: Company, Edelweiss Research

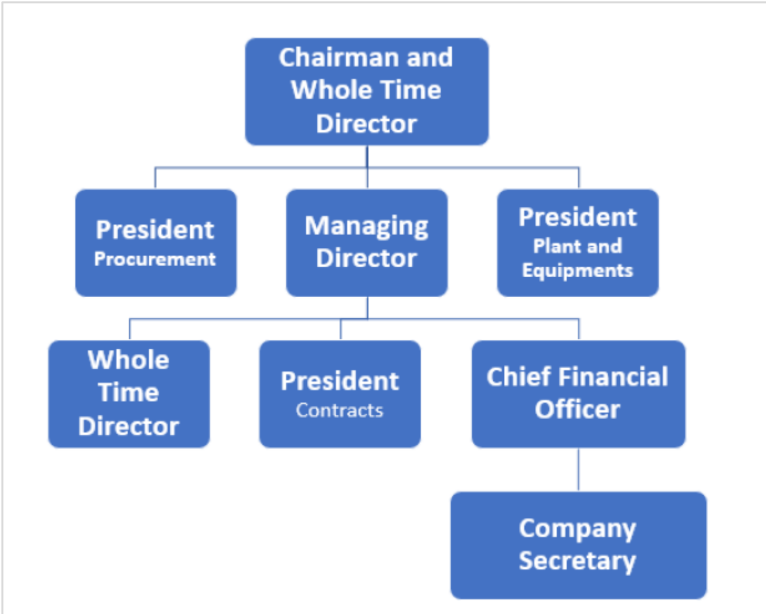
Management Overview

GRIL was founded in 1995 by Mr. Gumaniram Agarwal. The company's current promoters include Mr. Vinod Kumar Agarwal, Mr. Ajendra Kumar Agarwal, Mr. Purshottam Agarwal and Lokesh Builders Private Limited.

GRIL's promoters have long experience in the field of infrastructure. They have been capital conscious, having raised equity funds only once in their history. They have also been conservative as far as balance sheet is concerned and have always kept leverage levels low.

The company has a leadership team of experienced professionals with relevant functional expertise. They have been instrumental in implementing the business strategies.

Exhibit 53: Management structure



Source: Company, Edelweiss Research

The leadership team is assisted by a strong senior-level management team, heading various functions and units of business, such as business development and liaison, planning, procurement, construction management, strategy, human resources, accounts, finance and legal.

Board of Directors

1. **Mr. Vinod Kumar Agarwal, Chairman and Whole-Time Director:** He is also one of the promoters, and has over 25 years of experience in the road construction industry. Mr. Agarwal has been a Director on the Board since the company's incorporation and has been instrumental in its growth. He looks after the strategy and policy formulation, and liaises with various governmental departments and also overlooks processes including, bidding, tendering and planning. Mr. Agarwal is also the president of the National Highways Builders Federation.

2. **Mr. Ajendra Kumar Agarwal, Managing Director:** He is also one of the promoters. Mr. Agarwal is a Bachelor of Civil Engineering from Jodhpur University and has experience of more than 25 years in the road construction industry. He is responsible for overseeing the company's overall functioning, particularly operational and technical aspects. He also heads the in-house design team and is actively involved in continued value engineering using the latest specifications and methodologies. And Mr. Agarwal also heads the budgeting, planning and monitoring process, which leverages timely completion of GRIL's projects. He has been a director on the board since 2006.

3. **Mr. Vikas Agarwal, Whole-Time Director:** He is a Bachelor of Commerce from Mohanlal Sukhadia University, Udaipur, and has been associated with the company since April 1, 2006 and has over 15 years of experience in the road construction industry. Mr. Agarwal is responsible for overseeing the functioning of running projects allocated by management from time to time. He was previously associated with the company as director (operations).

4. **Mr. Ramesh Chandra Jain, Whole-Time Director:** He is a Bachelor of Civil Engineering from Rajasthan University, and has experience of over 27 years in the roads construction business. Prior to joining GRIL in January 2015, he was associated with the NHAI. Mr. Jain is responsible for monitoring construction of roads, highways and bridges. He is also responsible for the bidding process for new projects. Mr. Jain was previously associated with GRIL as Senior Vice President – Business Development.

5. **Mr. Chander Khamesra, Non-Executive Independent Director:** He is a Bachelor of Commerce and Master of Business Administration (Executive) from the Mohanlal Sukhadia University, Udaipur. He has 21 years of experience in the jewellery industry. Mr. Khamesra is also on the board of directors of Mayura Jewels (India) Private Limited.

6. **Ms. Kalpana Gupta, Non-Executive Independent Director:** She is a Master of Science (Zoology) from the University of Lucknow, and holds a Diploma in Marketing and Sales Management from the Institute of Productivity and Management. Ms. Gupta is also an associate of the Indian Institute of Bankers. In addition, she has earned a few certifications from the National Institute of Securities Markets. She has experience of over 34 years in the banking sector, and worked at Punjab National Bank as General Manager as part of her most recent assignment. She has also, in the past, been invited for speaking engagements at various public fora.

7. **Mr. Rajendra Kumar, Non-Executive Independent Director:** He is a Master of Commerce (specialising in business administration) from Maharshi Dayanand Saraswati University, Ajmer. He is also a fellow of the Institute of Company Secretaries of India. Mr. Kumar has over 17 years of experience as a practising company secretary.

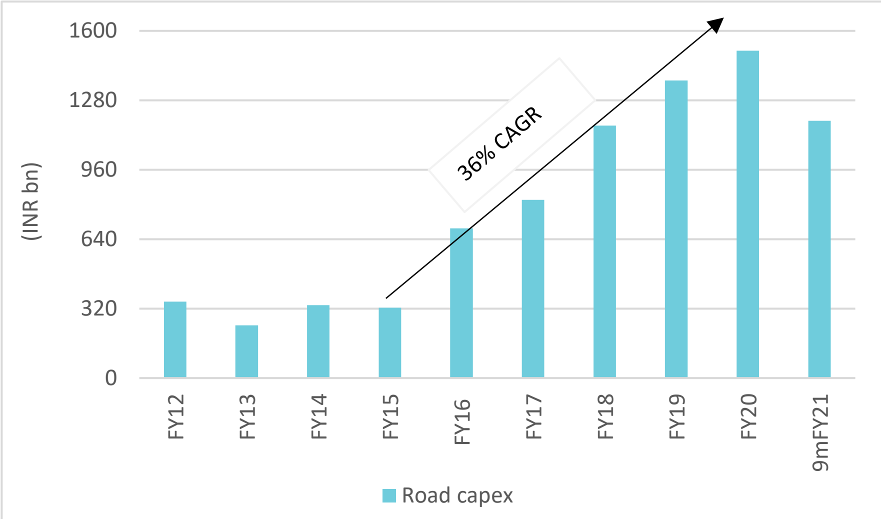
8. **Mr. Desh Raj Dogra, Non-Executive Independent Director:** He is a Master of Science from Himachal Pradesh University and a Master of Business Administration from the University of Delhi. Mr. Dogra is also a certified associate of the Indian Institute of Bankers and has more than 37 years of experience in the financial sector, mainly in areas of banking and credit rating. He was associated with Dena Bank for 15 years and retired as a managing director and chief executive officer of CARE.

Industry Outlook

Roads: Onwards and upwards

The past few years have witnessed a surge in capex in the road sector. With roads being a focus area for the government, total capex in the segment has surged ~5x since FY15.

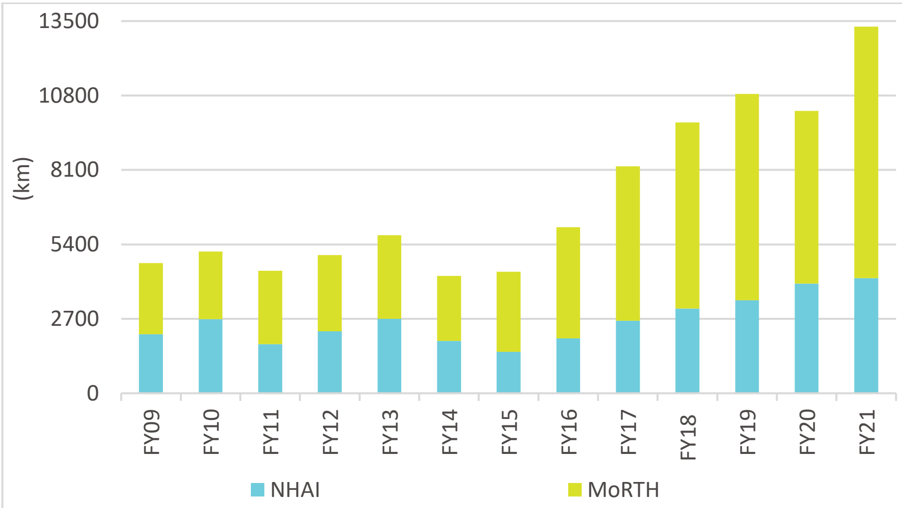
Exhibit 54: Road capex: Quintupled since FY15



Source: Government documents, Edelweiss Research

Despite covid-19, the roads ministry (MoRTH) constructed ~13,300km of national highways in FY21 compared with around 10,240km in FY20, up around 30% YoY.

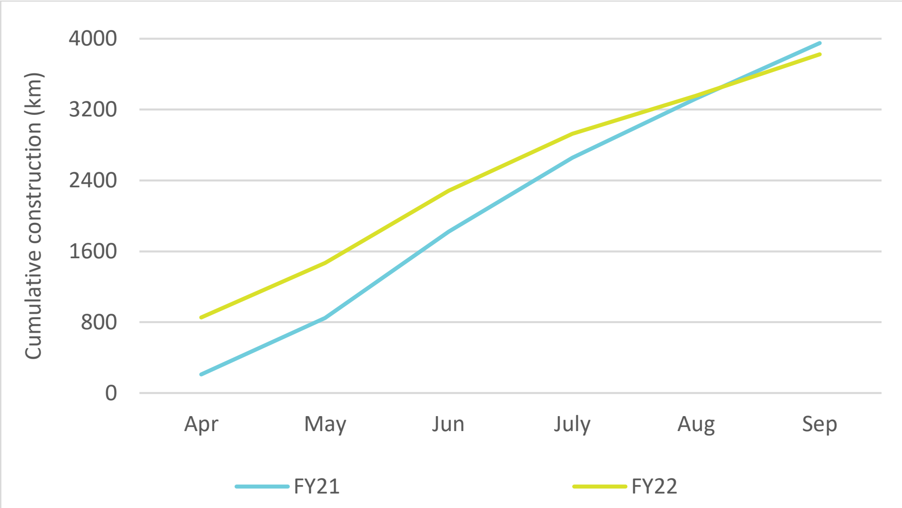
Exhibit 55: Road construction has been improving steadily



Source: Government documents, Media reports, Edelweiss Research

MoRTH had easily crossed its target of 11,000km road construction during FY21 despite the lockdown during Q1FY21, which had impacted construction activities adversely.

Exhibit 56: Heavy rains impact construction in H1FY22

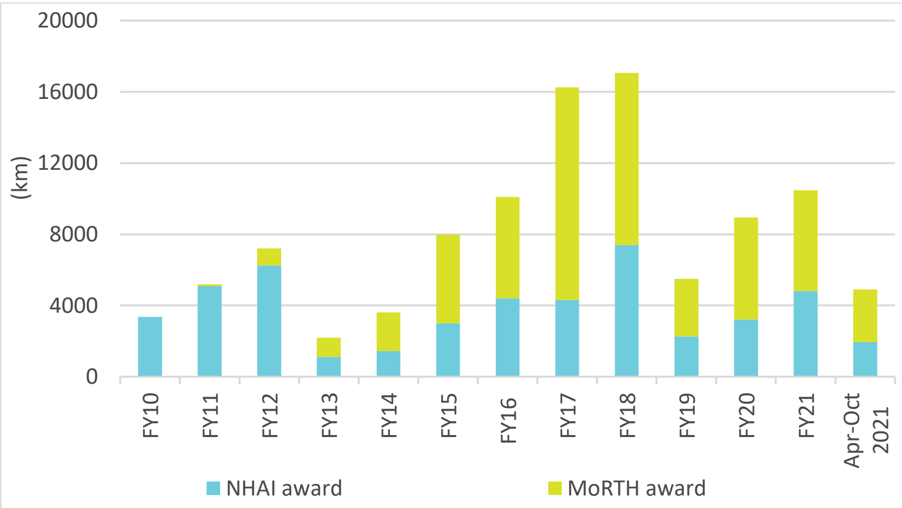


Source: Government documents, Media reports, Edelweiss Research

Road construction during Apr–Aug 2021 was up 5% YoY; however, extended monsoons impacted execution adversely during Sep–Oct 2021, leading to YTDFYY22 construction falling behind on a YoY basis.

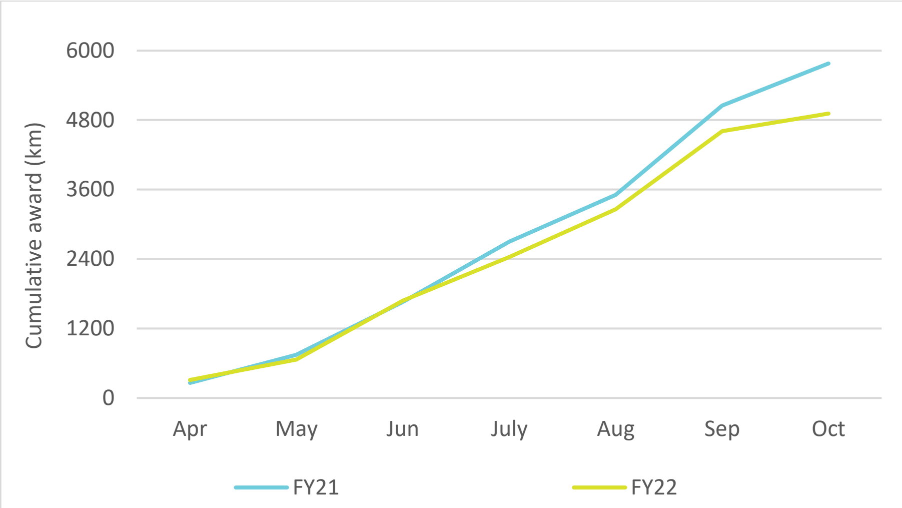
As far as project awards are concerned, overall road project award (NHAI + MoRTH) in FY21 was ~10,500km, up around 17% YoY compared with 8,948km in FY20.

Exhibit 57: Road awards increased significantly in FY21



Source: Government documents, Media reports, Edelweiss Research

Exhibit 58: Ordering has been slow during current year



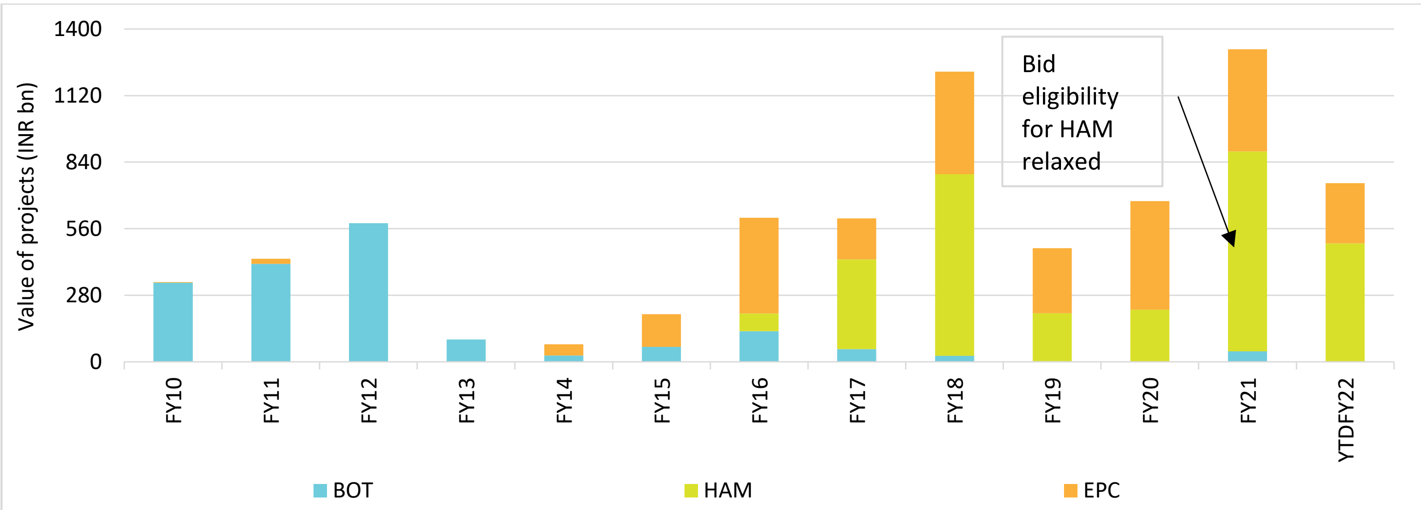
Source: Government documents, Media reports, Edelweiss Research

While awarding has been slow in H1FY22, we expect it to pick-up going ahead.

NHAI award surged in FY21

NHAI awarded/opened bids for projects worth ~INR1.3tn and spanning ~4800km during FY21.

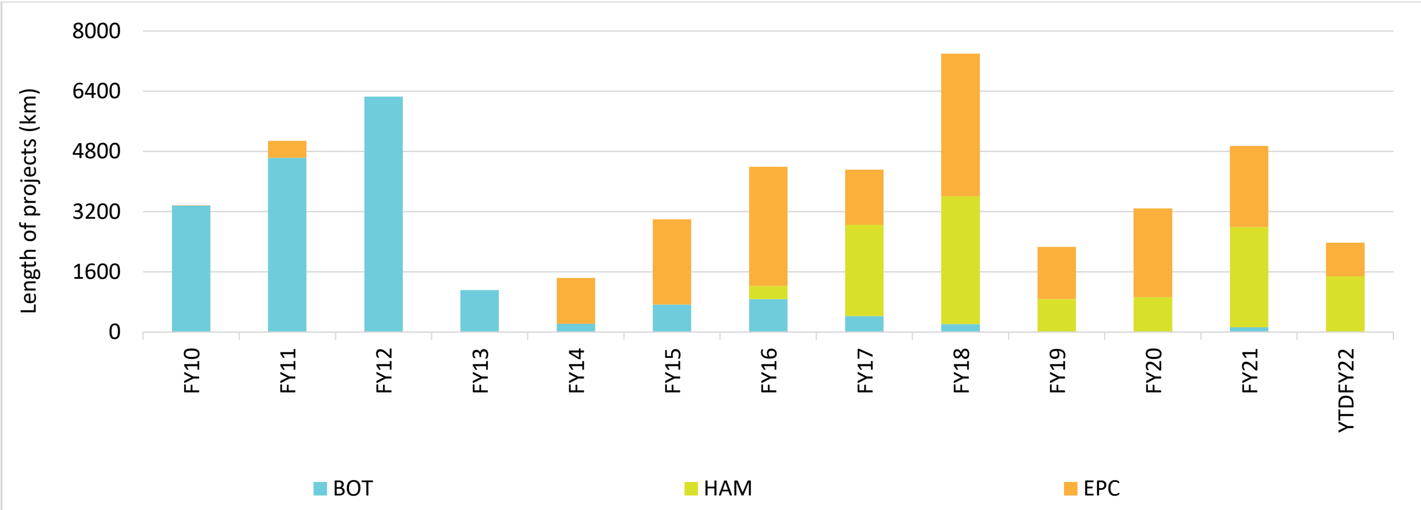
Exhibit 59: NHAI project award touched INR1.3tn mark in FY21



Source: Government documents, Media reports, Edelweiss Research

NHAI has awarded/opened bids for projects worth ~INR750bn to date in FY22; this figure has been boosted as certain projects for which bids had been opened during FY21 have been awarded in the current year.

Exhibit 60: Significant improvement in HAM projects award since FY20

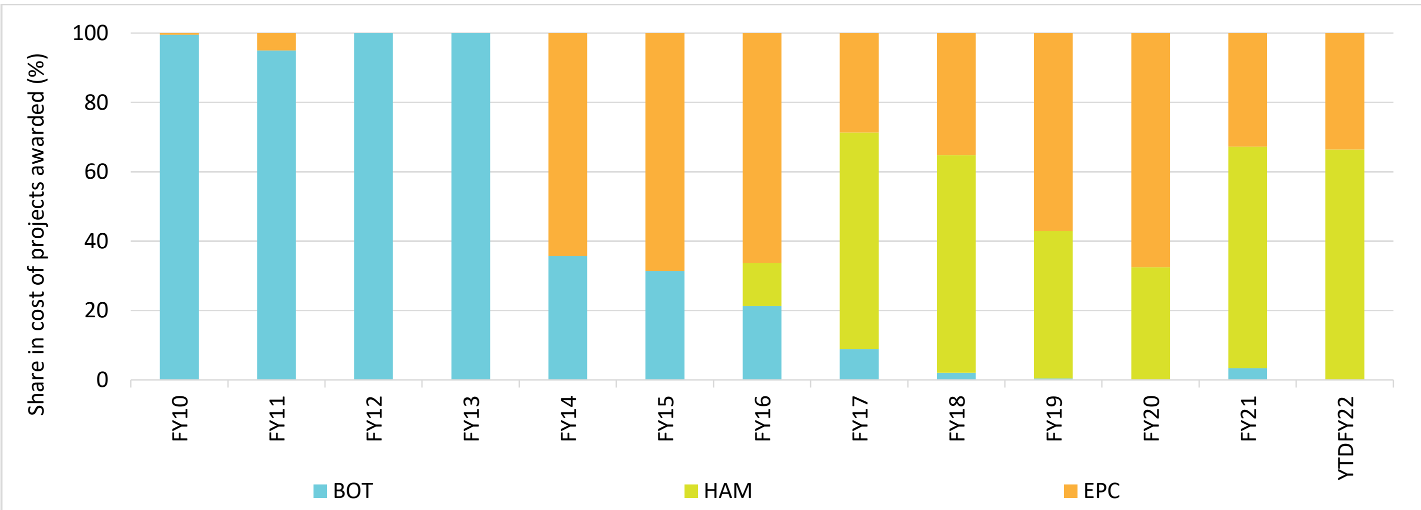


Source: Government documents, Media reports, Edelweiss Research

A significant reason behind the increase in NHAI project award during FY21 was the revival in HAM project awards. From contributing ~62% to the total cost of NHAI projects awarded over FY17/18, the share of HAM projects had fallen to 42% in FY19 and further to 32% in FY20.

However, FY21 saw the share of HAM projects in overall cost of projects awarded zooming to ~64%.

Exhibit 61: Share of HAM projects in NHAI award has surged since FY20

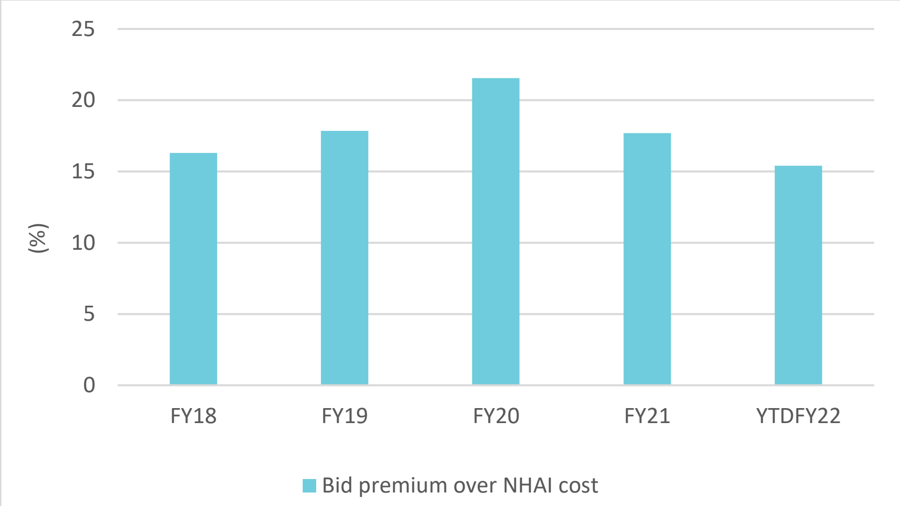


Source: Government documents, Media reports, Edelweiss Research

The main reason behind this is the relaxation in eligibility criteria for HAM projects. While earlier, any prospective bidder was required to have a net worth equivalent to 25% of the EPC cost of the project, this criterion has now been relaxed to 15%. Consequently, a larger number of players are eligible to bid for HAM projects.

This is evident in the fact that while most HAM projects awarded during FY19/20 had 5–10 bidders, FY21/22 have witnessed a few HAM projects attracting bids from as high as 15 bidders.

Exhibit 62: Premium for HAM projects coming down due to higher competition



Source: Government documents, Media reports, Edelweiss Research

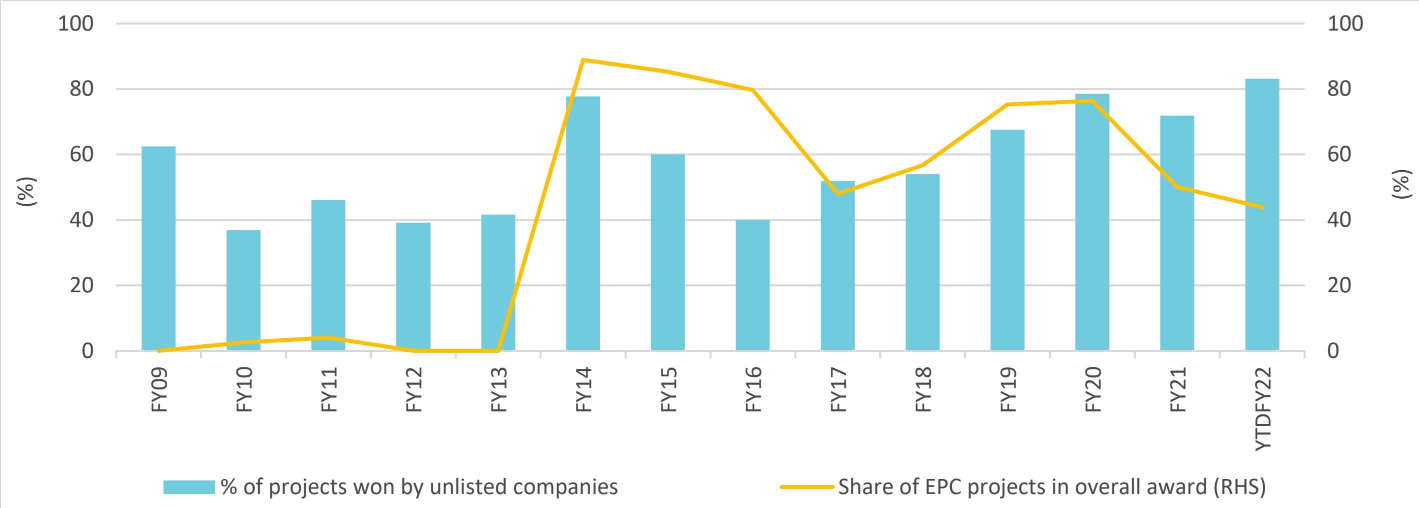
However, despite more players bidding for HAM projects, the sheer volume of projects getting awarded and the comfortable order book position of many EPC players mean that bidding has still been rational. While the premium for HAM projects (measured in terms of bid project cost quoted by the winning bidder compared with estimated cost of NHAI) has come down since FY20, it has remained upwards of 15% in FY21/YTDFY22. This indicates that HAM projects remain a lucrative opportunity for players that have the requisite financial heft to bid.

On the opposite end of the spectrum are EPC projects. Due to the fact that: i) threshold capacity has been reduced for EPC projects; and ii) road awarding had been weak in FY19/20, road EPC projects have witnessed intense competition. In fact, for certain projects, the number of bidders has crossed 35. Hence, it is no surprise that many EPC projects have been awarded below NHAI's estimated cost; on average, the winners of EPC projects have quoted amounts that are ~8%/15% lower than NHAI's estimated cost during FY21/YTDFY22.

Unlisted players' dominance rises

A defining feature of the NHAI project award over the last few years has been the increasing influence of unlisted road players. This is in marked contrast to the FY09–13 period when listed developers held sway.

Exhibit 63: Share of projects won by unlisted developers has been rising (based on length of projects)



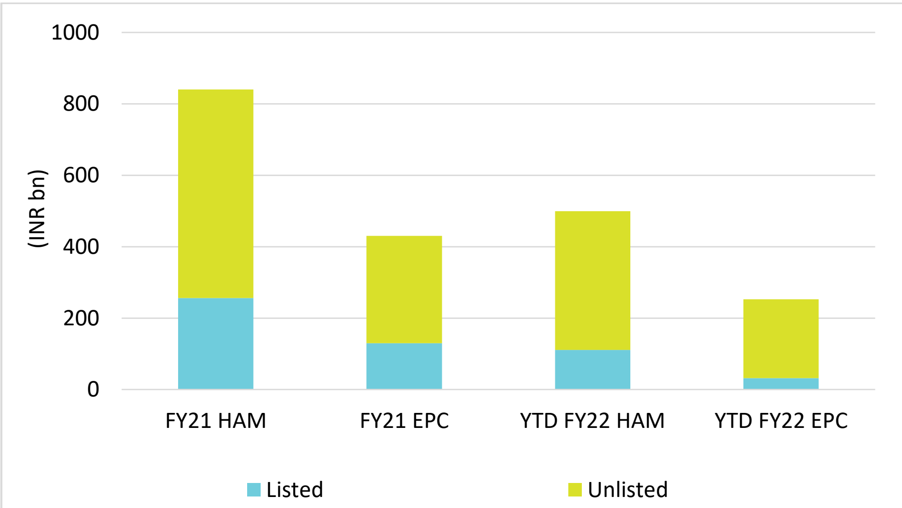
Source: Government documents, Media reports, Edelweiss Research

A major reason behind this is that most of the projects awarded by NHAI that during the FY09-13 period were on the BOT-Toll mode. Since unlisted developers lacked the financial muscle for bagging these projects, listed developers walked away with a lion's share.

To a large extent, unlisted developers earlier used to prefer EPC projects; consequently, the share of unlisted developers in total projects award tended to increase when the share of EPC projects in overall award rose. This is clearly visible from the chart above.

However, over the past few years, unlisted developers have started bidding for HAM projects as well. In fact in FY21/YTDFY22, unlisted developers have dominated both the EPC and HAM projects with a 70–80% market share.

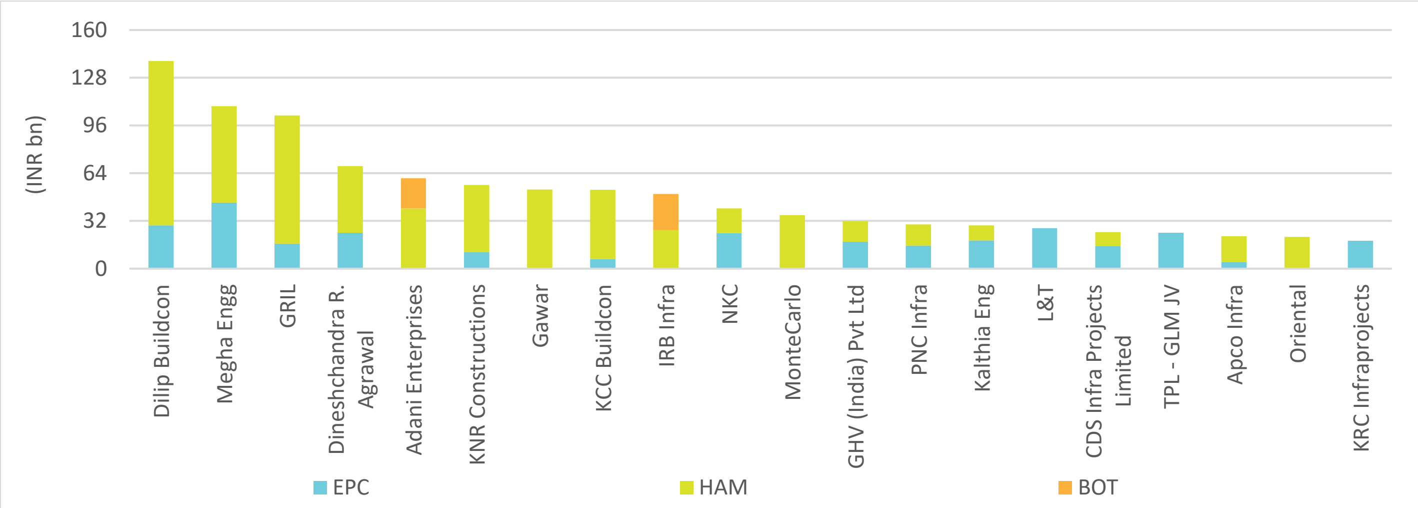
Exhibit 64: Unlisted developers dominated HAM projects in FY21/YTDFY22



Source: Government documents, Media reports, Edelweiss Research

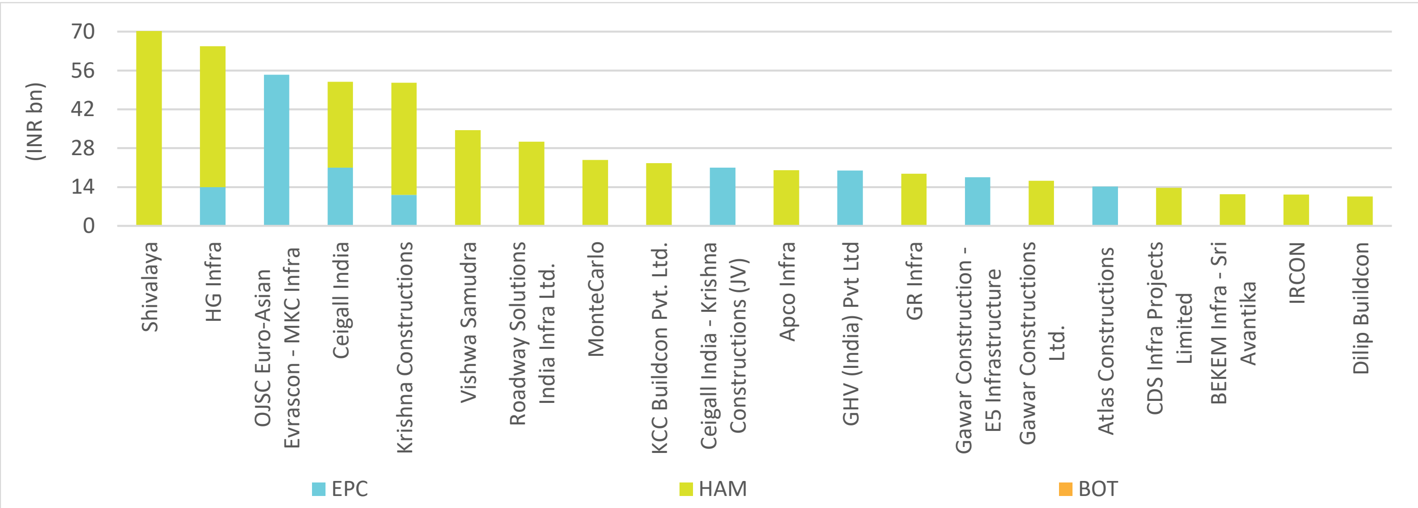
As a result, unlisted developers now dominate as far as NHAI project awards are concerned; in fact, Dilip Buildcon was the only listed developer in the top five developers in FY21 (based on project cost).

Exhibit 65: Unlisted developers won majority of projects in FY21…



Source: Government documents, Media reports, Edelweiss Research

Exhibit 66: …with the trend continuing in current fiscal



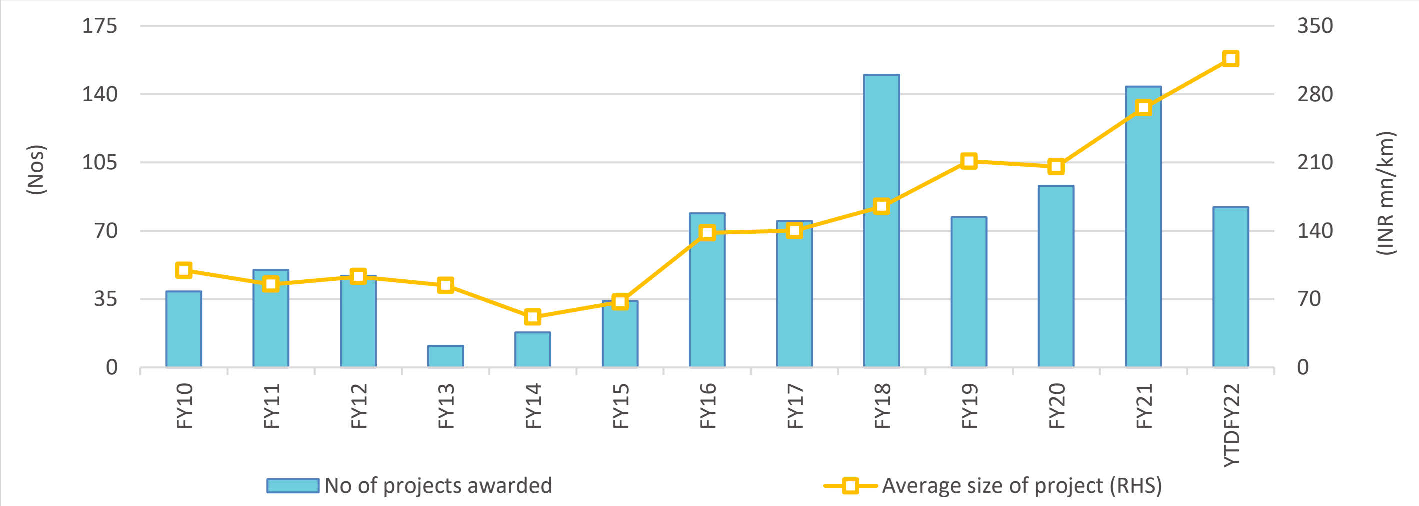
Source: Government documents, Media reports, Edelweiss Research

HG Infra is the only listed developer in the top 10 developers in the current fiscal (based on value of projects awarded/bids opened).

Focus on greenfield expressways

The other interesting feature of project awards by the NHAI over the last few years has been its focus on expressways. The NHAI is developing various greenfield expressways such as Delhi–Mumbai, Delhi–Dehradun, Delhi–Amritsar–Katra, Chittoor-Thatchur, Amritsar-Jamnagar and Bengaluru-Chennai.

Exhibit 67: Substantial increase in technical complexity of projects



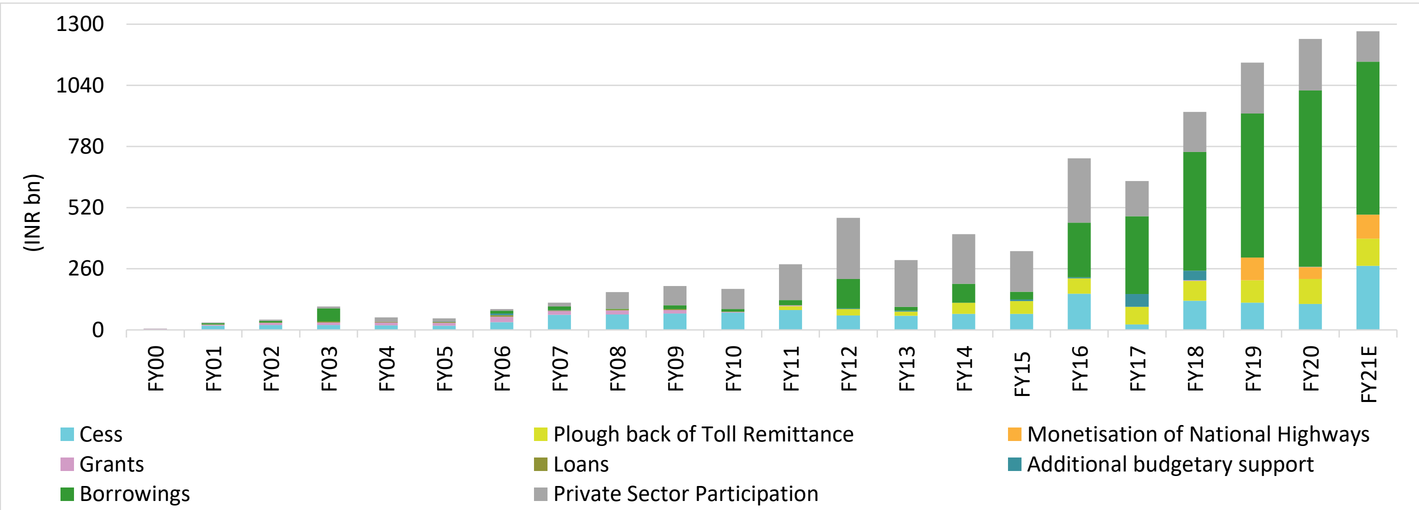
Source: Government documents, Media reports, Edelweiss Research

All these expressways are greenfield, access-controlled expressways with much higher technical complexity than brownfield projects (which typically require conversion from 1 to 2 lanes or 2 to 4 lanes). As a result, the average cost/km of the projects awarded in FY21/YTDFY22 has been significantly higher than in the past.

Funding: Green shoots emerging

As far as investors are concerned, NHAI funding is where the bulk of attention is focussed since listed road developers bag most of their orders from the NHAI. A look at NHAI's funding sources over the years highlights the changing dynamics of the road sector in India.

Exhibit 68: NHAI's reliance on borrowings has increased over past few years



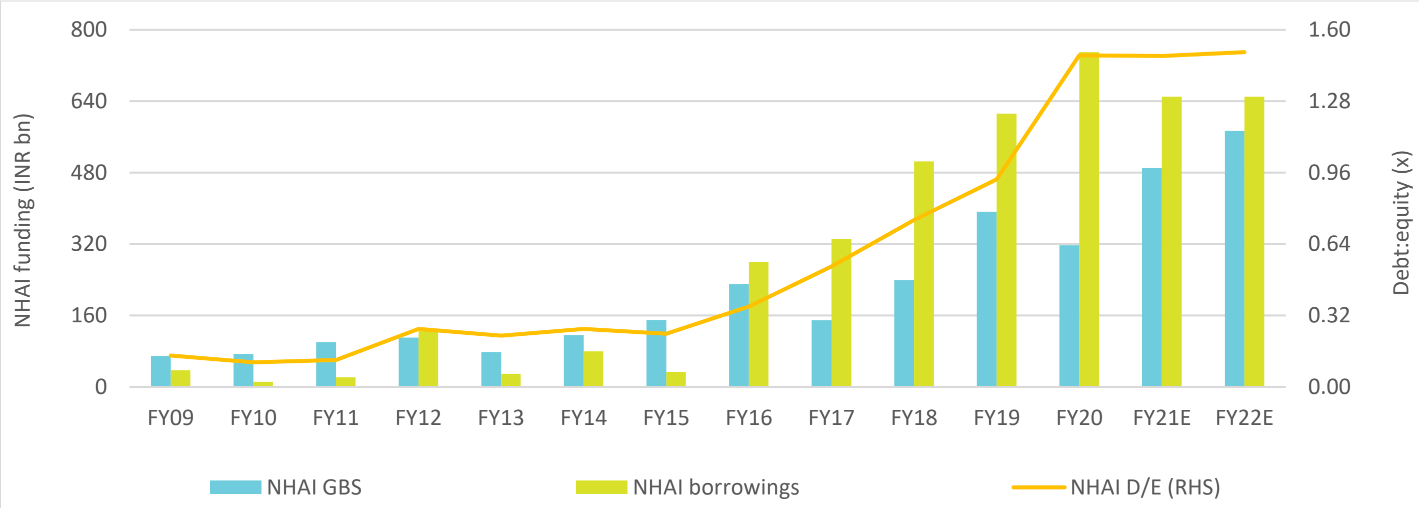
Source: Government documents, Edelweiss Research

With the BOT-toll mode being in vogue during FY08–15, the NHAI witnessed significant private sector participation during this period. Budgetary support (in the form of cess and plough-back of toll) was sufficient to meet the rest of the funding gap; hence NHAI's borrowings were minimal during this period. The highways authority borrowed just ~INR12bn annually on average from FY06–10.

With the toll mode going out of favour post-FY15, the government stepped in by increasing the share of budgetary support; however, the rise was not commensurate with the upsurge in NHAI's capex. Consequently, NHAI's borrowings surged after FY15—annual incremental borrowings rocketed from an average of ~INR55bn over FY11–15 to ~INR490bn over FY16–20.

As a result, NHAI's overall debt, which was just ~INR250bn in FY15, touched ~INR3.4tn at end-FY21. Its debt to equity, which was 0.2x in FY15, is now about 1.5x.

Exhibit 69: Sharp increase in NHAI's leverage post-FY15

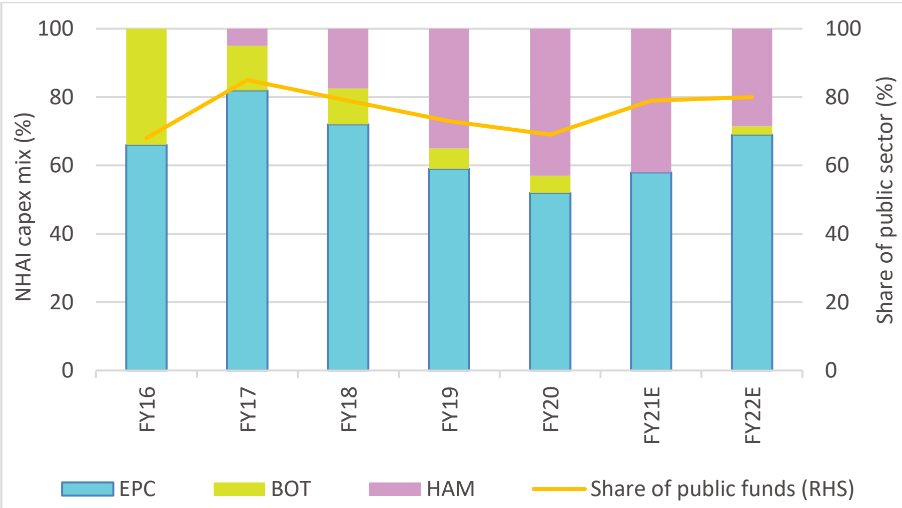


Source: Government documents, Edelweiss Research

Note: GBS = Gross budgetary support

NHAI's fund requirements also depend on the mode of project award. With the share of EPC projects inching up in FY19/20, there will be a bigger burden on NHAI over the next couple of years.

Exhibit 70: Higher burden on public funds as share of EPC capex rises

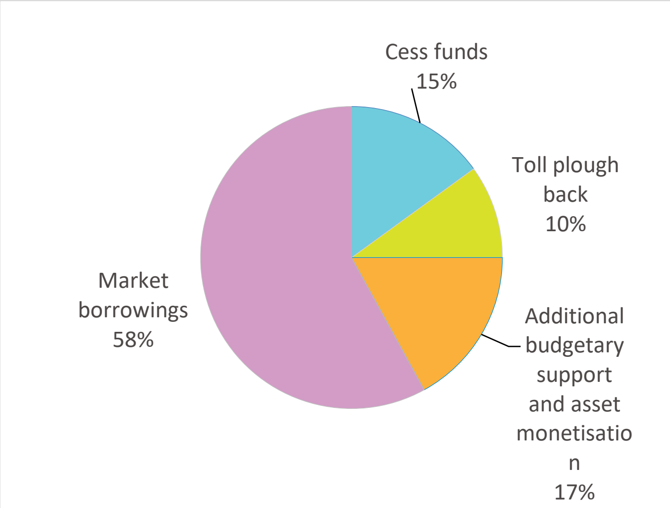


Source: Government documents, Crisil, Edelweiss Research

To counter this, the government has increased budgetary support for the road sector. The budgetary support (cess and toll ploughback) is projected to increase by 45% in FY21 and 22% YoY in FY22; hence, incremental borrowings are projected to decline from ~INR750bn in FY20 to ~INR650bn in FY21/22 each.

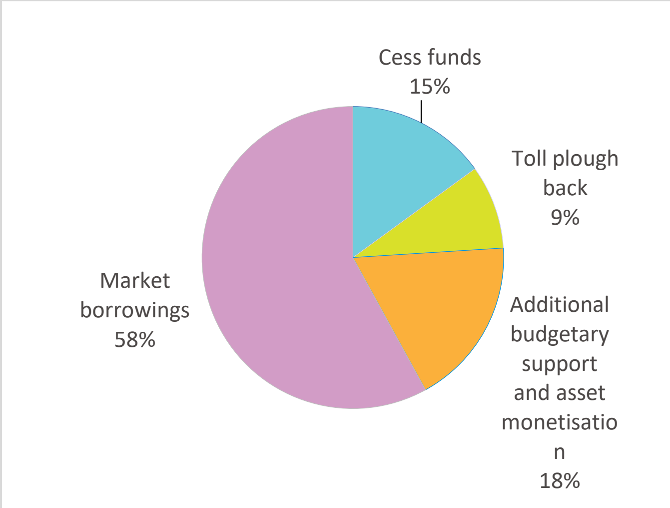
Nevertheless, there are limits to increasing budgetary support, particularly considering the uncertain economic environment. In such a scenario, asset monetisation appears to be the only way for NHAI to enhance its fund availability.

Exhibit 71: NHAI funding source: FY17–21E (~INR5tn)



Source: Government documents, Crisil, Edelweiss Research

Exhibit 72: NHAI fund source: FY21–25E (INR8–9tn)



Source: Government documents, Crisil, Edelweiss Research

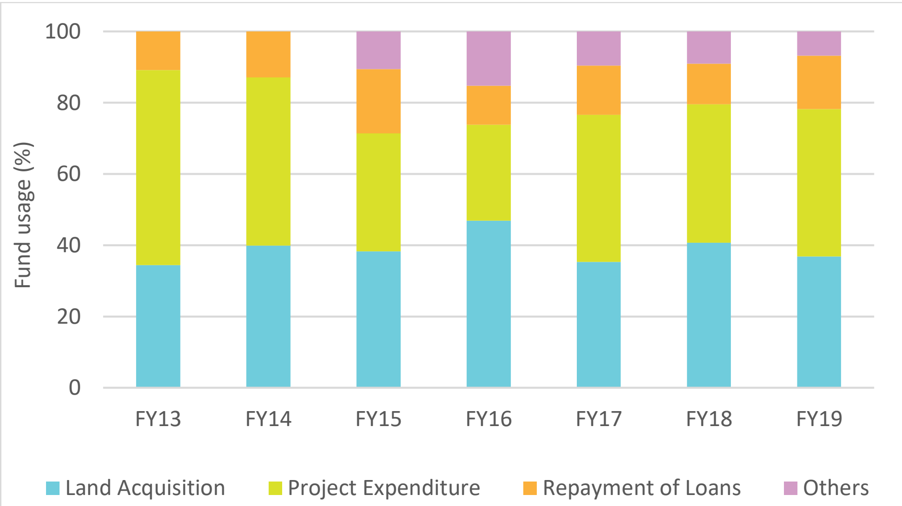
Going ahead, we believe the NHAI will be cognizant of the need to keep its debt under check. Thus, asset monetisation will emerge as an important factor.

Usage of funds

As far as usage of funds is concerned, NHAI broadly has the following four objectives:

- Land acquisition
- Project expenditure
- Debt repayment
- Other uses like maintenance, payment of annuities/grant etc.

Exhibit 73: Land and project expenses form bulk of NHAI's fund usage

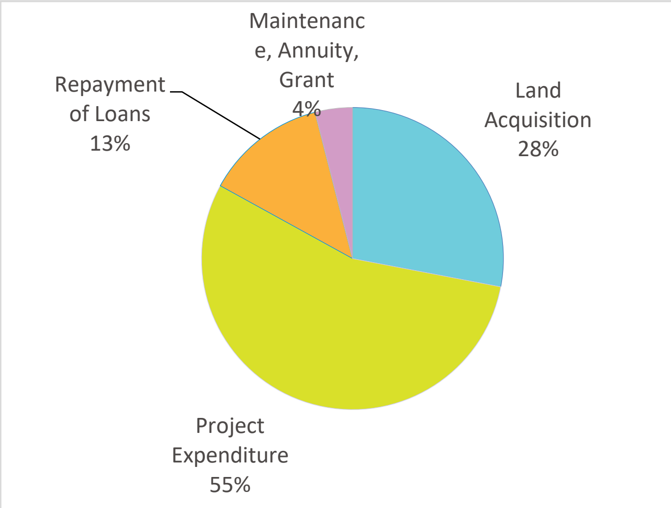


Source: Government documents, Edelweiss Research

Over FY13–19, land acquisition and project expenses each formed on an average ~40% of NHAI's overall expenses; the repayment of debt came next.

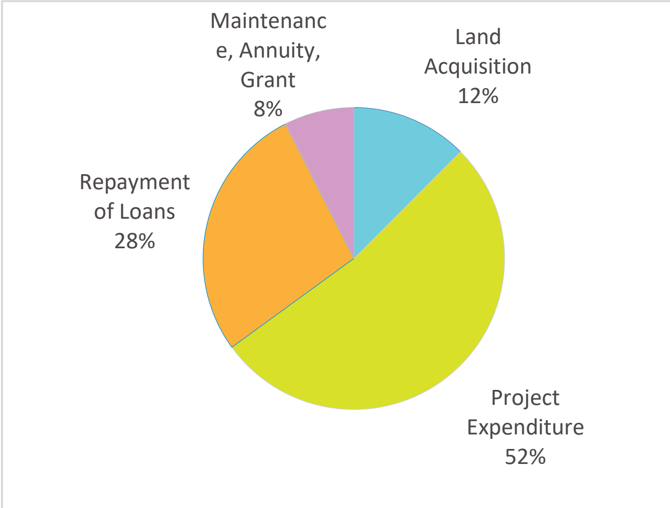
Over the next couple of years, with the NHAI focussing on greenfield expressways (wherein land acquisition costs are lower than in case of brownfield projects), the share of land acquisition costs is expected to fall.

Exhibit 74: NHAI fund usage: FY17–21E (~INR5tn)



Source: Government documents, Crisil, Edelweiss Research

Exhibit 75: NHAI fund usage: FY21–25E (INR8–9tn)



Source: Government documents, Crisil, Edelweiss Research

On the other hand, repayment of debt (as % of overall funds usage) will inch up with the increase in leverage for the NHAI. Also, with more HAM projects getting awarded, the NHAI will have to spend higher on annuity payments going ahead.

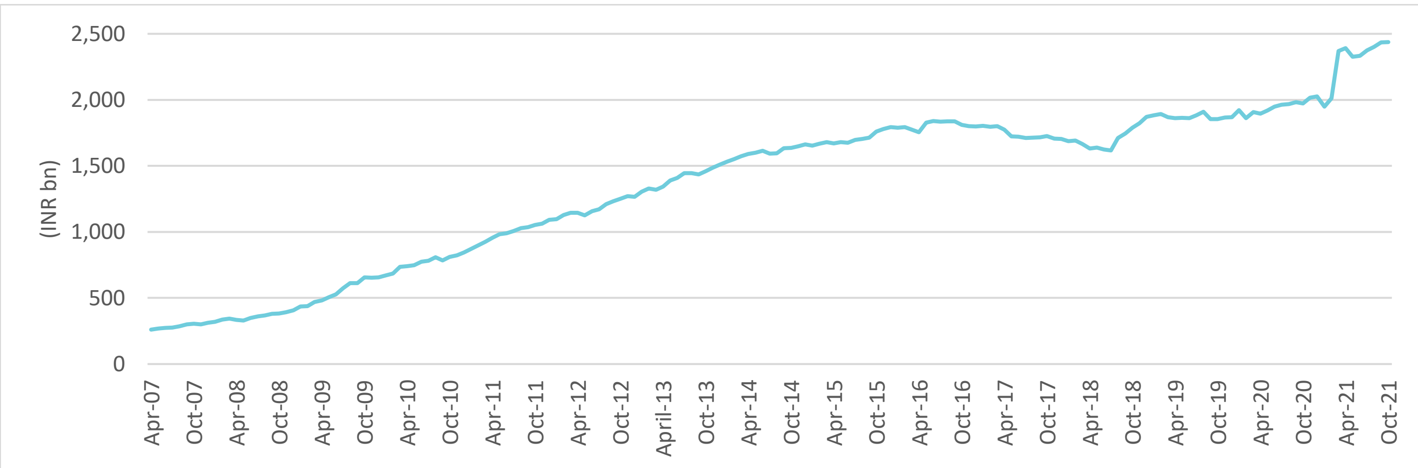
Funding for road developers

With HAM road awards surging, we believe concerns about funding for road developers will emerge. These concerns relate to debt and equity availability.

With the overall HAM/BOT award in FY21 touching the ~INR900bn mark, we believe road developers will need to infuse ~INR550bn worth of capital (debt and equity) to develop these projects. This will likely translate into a requirement of ~INR400bn in debt and ~INR150bn of equity. Considering that the overall banking sector exposure to the road segment is ~INR2.4tn, this will require a significant step-up in bank funding to the sector.

As far as debt funding is concerned, we believe tier-1 developers such as GRIL, KNR Constructions, PNC Infra, etc. are unlikely to face any major issues. However, smaller developers may face difficulties in arranging bank funding, especially if one has to go by the FY18 experience (wherein the NHAI had awarded a large number of HAM projects and many developers faced hurdles even in achieving financial closure).

Exhibit 76: Outstanding bank credit for road sector



Source: Government documents, Edelweiss Research

Similarly, on the equity side, while the larger listed developers are well placed, some of the unlisted developers (small in size that have won multiple HAM projects) may face funding constraints. This is all the more pertinent since unlisted developers won ~INR580bn worth of HAM projects in FY21 and hence would need to infuse INR85–90bn equity.

In fact, there are already multiple examples wherein better funded developers have had to take over projects from those facing financing issues.

Exhibit 77: Projects taken over by well-funded developers

Project	Initial sponsor	New sponsors
Ausa-Chakur	MEP - Longjian Road & Bridge Company	Gangamai Industries - Kalyan Toll Infra
Chakur-Loha	MEP - Longjian Road & Bridge Company	Kalyan Toll Infra
Loha - Waranga	MEP - Longjian Road & Bridge Company	Kalyan Toll Infra
Kozhikode Bypass	KMC	Welspun Enterprises
Mukarba Chowk-Panipat	Essel Group	Welspun Enterprises
Gagalheri-Saharanpur-Yamunanagar	MBL Infra	Welspun Enterprises
Chutmalpur-Ganeshpur	MBL Infra	Welspun Enterprises
Chikhali-Tarsod (Package-IIA)	Vishvaraj Engg	Welspun Enterprises

Source: Company, Media reports, Edelweiss Research

Overall, we believe availability of funding may have a significant bearing on the trajectory of future project awards. In case developers face funding crunch, a repeat of FY19 (where project award declined drastically compared with FY18 as developers faced a funding squeeze and were not able to effectively develop projects awarded in FY18) cannot be ruled out.

Asset monetisation: Panacea for all ills?

With funding emerging as an issue for NHAI as well as developers, asset monetisation is the most likely saviour as far as the funding conundrum is concerned. We take a look at the progress of asset monetisation over the past few years.

- **Monetisation by NHAI:** The NHAI has commenced monetisation of national highways through the Toll-Operate-Transfer (ToT) mode from FY19. It raised ~INR97bn/INR50bn through this in FY19/20.

Exhibit 78: ToT mode has evinced mixed response from investors

Particulars	ToT 1	ToT 2	ToT 3	ToT 4	ToT 5
Total length (kms)	681	587	566	342	160
IECV (Rs bn)	62.6	53.6	50.0	21.7	16.2
IECV (Rs mn per km)	142	91	88	63	14
Concession Period (yrs)	30	30	30	20	20
Number of stretches	9	8	9	6	2
No. of bids received	4	3	3	NA	5
Status	Awarded in Aug 2018	Cancelled in Mar 2019	Awarded in Nov 2019	Cancelled in Sep 2020	Bids opened in Feb 2021
Winning/highest bid (INR bn)	Macquarie - 96.8	NA	Cube Highways - 50.1	NA	Adani - 10.1, DP Jain - 12.5

Source: Government documents, Media reports, Edelweiss Research

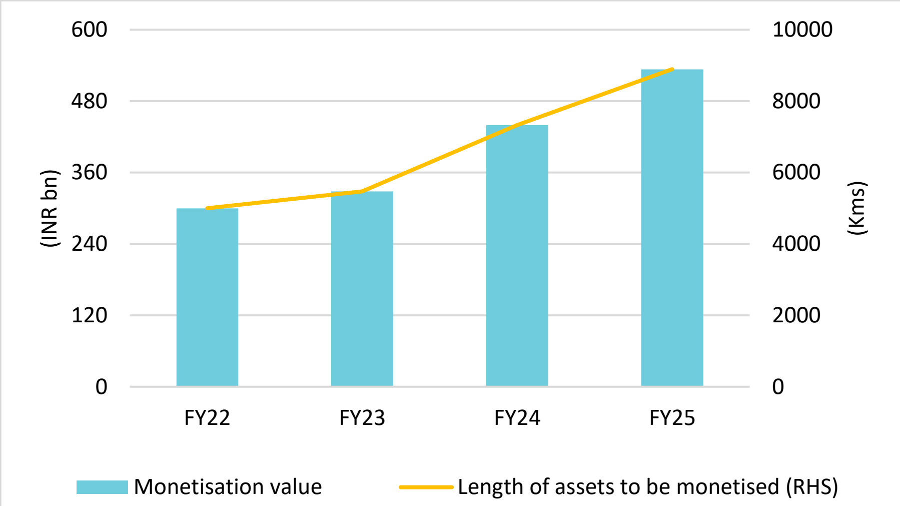
However, the progress of ToT monetisation has been mixed. Of the five road bundles which the NHAI tried to monetise through the ToT mode, while three attempts were successful, two bids had to be cancelled. Taking this into account, the NHAI had already tweaked the parameters for the fifth ToT bundle. We believe ToT will remain an important channel of raising funds.

- **InViT:** The NHAI has recently raised more than INR50bn in funds through an InViT. Two international pension funds — Canada Pension Plan Investment Board and Ontario Teachers' Pension Plan Board – were the anchor investors and will hold 25% of the units each in the InViT. We believe the InViT will become a more efficient and faster way to raise funds than ToT.

The National Monetisation Pipeline (NMP) sheds light on the future plans of road monetisation. The road segment has the highest share in NMP and makes up ~27% of the overall value of assets that the government is looking to monetise.

Over FY22–25, the government plans to monetise road assets spanning 26,700km and worth INR1.6tn.

Exhibit 79: Road monetisation pipeline



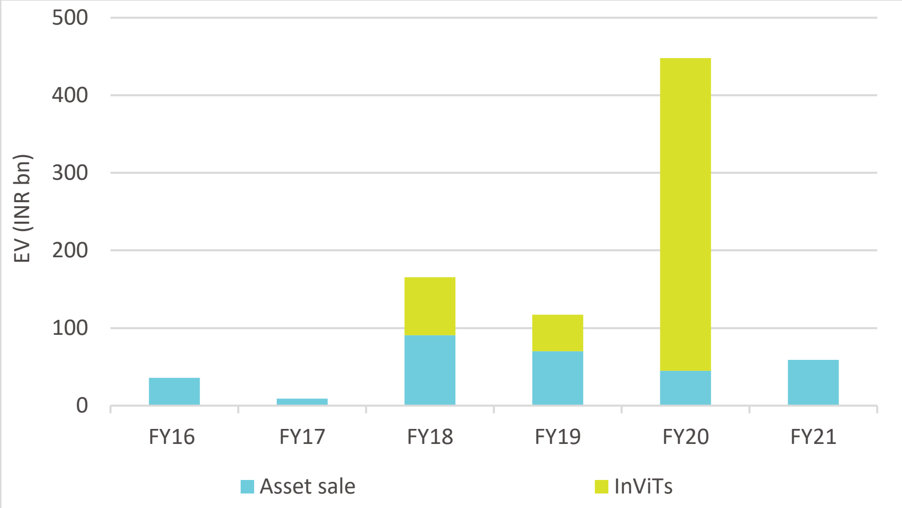
Source: Government documents, Edelweiss Research

The NMP assumes a sharp improvement in the value of road assets to be monetised going ahead compared with the progress over the past few years. We believe the government's ability to achieve its goal will determine the overall funds available with NHAI and consequently the pace of project awarding going ahead.

- **Asset monetisation by developers:** Apart from the NHAI, various road developers have also entered into transactions with financial institutions to sell their assets; this has enabled them to churn their capital and bid for additional HAM/BOT projects in order to leverage their core EPC skills.

  In addition, road developers have taken the InViT route to monetise their assets. According to Crisil, road developers have cumulatively raised more than INR830bn (enterprise value) through asset monetisation since FY15.

Exhibit 80: Asset monetisation undertaken by road developers

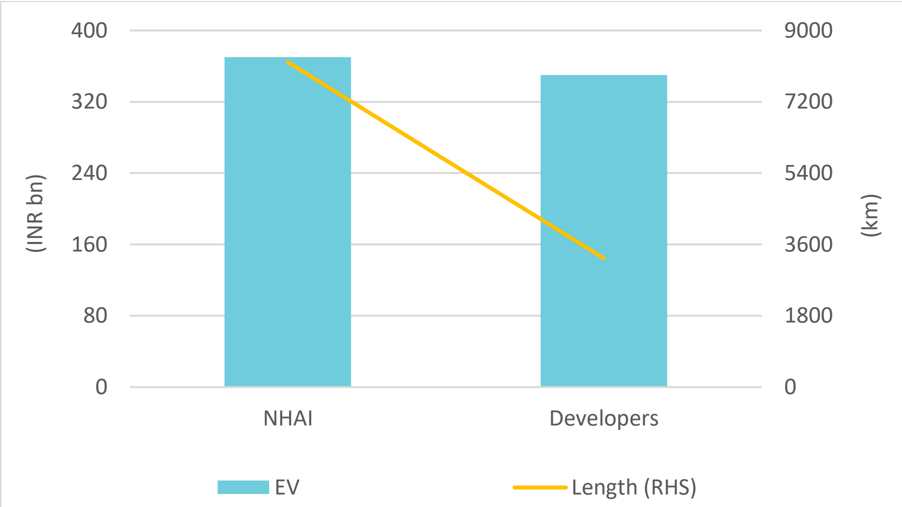


Source: Crisil, Edelweiss Research

Going ahead, we believe road developers will continue to lay emphasis on asset churning considering a significant quantum of equity requirements for HAM projects awarded in FY21.

Overall, Crisil believes there is potential to monetise assets worth more than INR700bn (EV) over the next few years on aggregate via NHAI and road developers.

Exhibit 81: Potential asset monetisation in roads over next 2–3 years



Source: Crisil, Edelweiss Research

While this is not something that is impossible, it would require consistent support and involvement of all the stakeholders: government, developers, lenders and financial institutions. There needs to be a steady stream of asset monetisation to ensure the momentum in road awards does not dissipate going ahead.

State road capex: Covid-19 delivers a hard knock

Over the past few years, a slowdown in economic growth had started taking a toll on road capex undertaken by various state governments. For example, the budgeted expenditure for state roads in FY21 was already lower than the revised estimates for FY20.

Apart from that, the pandemic has adversely impacted the fiscal situation of state governments. Consequently, Crisil estimates state roads' capex to have declined 10-15% in FY21 before recovering in FY22. It expects a significant hit to road capex in Maharashtra, Uttar Pradesh, Madhya Pradesh, Karnataka, Tamil Nadu, among others

This is likely to be followed by a rebound (10–15%) in state road investments in FY22 as normalcy is restored.

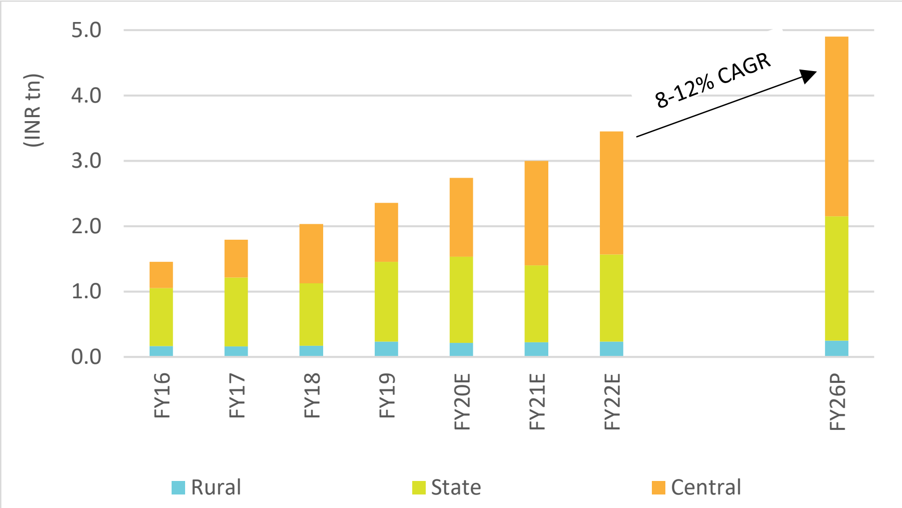
Outlook: Moderate increase in road capex expected

We believe the trajectory of road capex going ahead will depend significantly on asset monetisation. This is because there are limits to the funds that the NHAI can generate through: i) borrowings (in light of its increasing leverage); and ii) budgetary support from cess (in light of increasing crude oil prices).

In addition, the fiscal situation of state governments has deteriorated post-covid, raising concerns about their ability to enhance road capex.

In such a situation, asset monetisation will emerge as the determining factor as far as road investments are concerned.

Exhibit 82: Overall road capex to rise at a steady rate

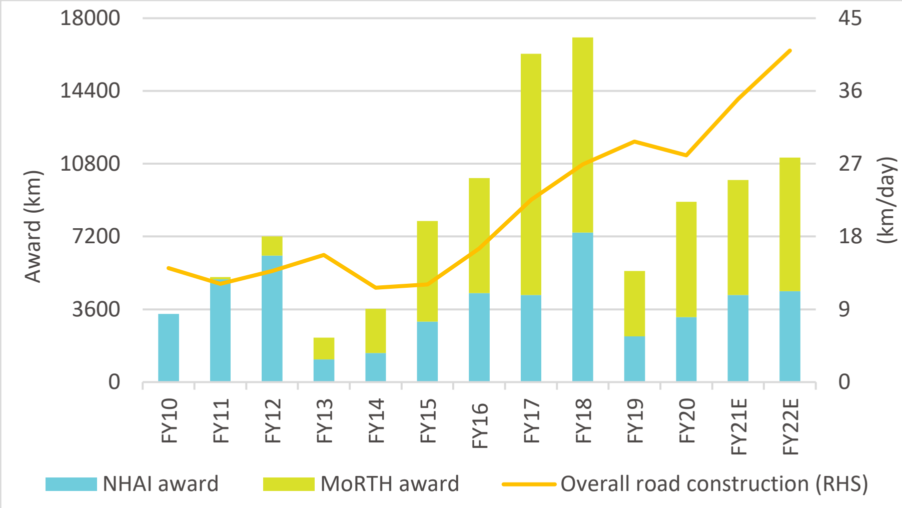


Source: Government documents, Crisil, Edelweiss Research

Note: Excludes land acquisition costs

Crisil believes that overall road capex (central + state + rural) will increase at an 8–12% CAGR over FY22–25. We agree with this hypothesis: better-than-expected success in asset monetisation implies upside risks to these estimates, in our view.

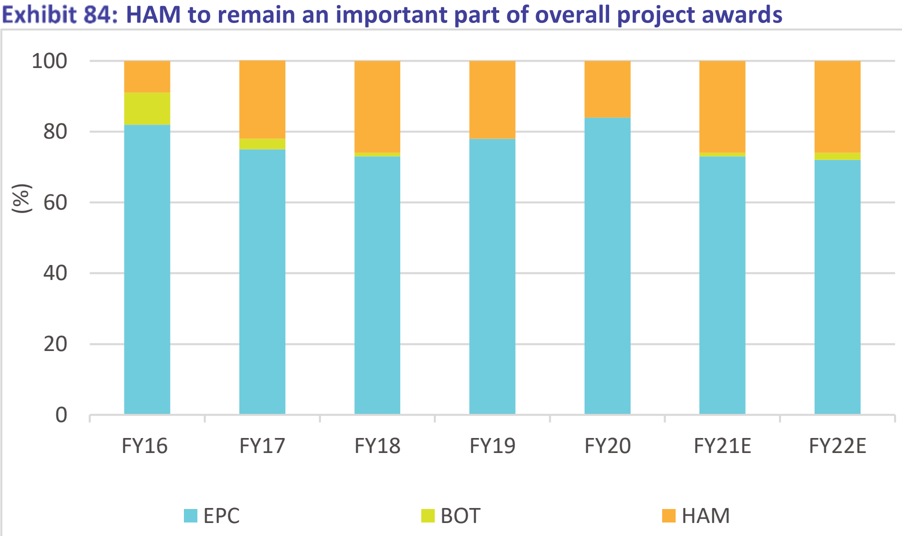
Exhibit 83: Steady increase in road awarding and construction expected



Source: Government documents, Crisil, Edelweiss Research

It expects road award to rise at a steady pace, aided by a consistent increase in awarding by NHAI and MoRTH. Road construction, which has been moving up at an impressive pace, is expected to cross the 40km/day mark in FY22.

Exhibit 84: HAM to remain an important part of overall project awards



Source: Government documents, Crisil, Edelweiss Research

Note: This includes NHAI + MoRTH project awards

With most projects being awarded by MoRTH on an EPC basis, the ministry expects EPC mode to contribute more than 70% to the overall project awards going ahead as well. The HAM mode will continue to contribute around a fourth of overall project awards. As discussed earlier, we believe this is contingent on the progress of asset monetisation.

Metro Rail: Chugging along nicely

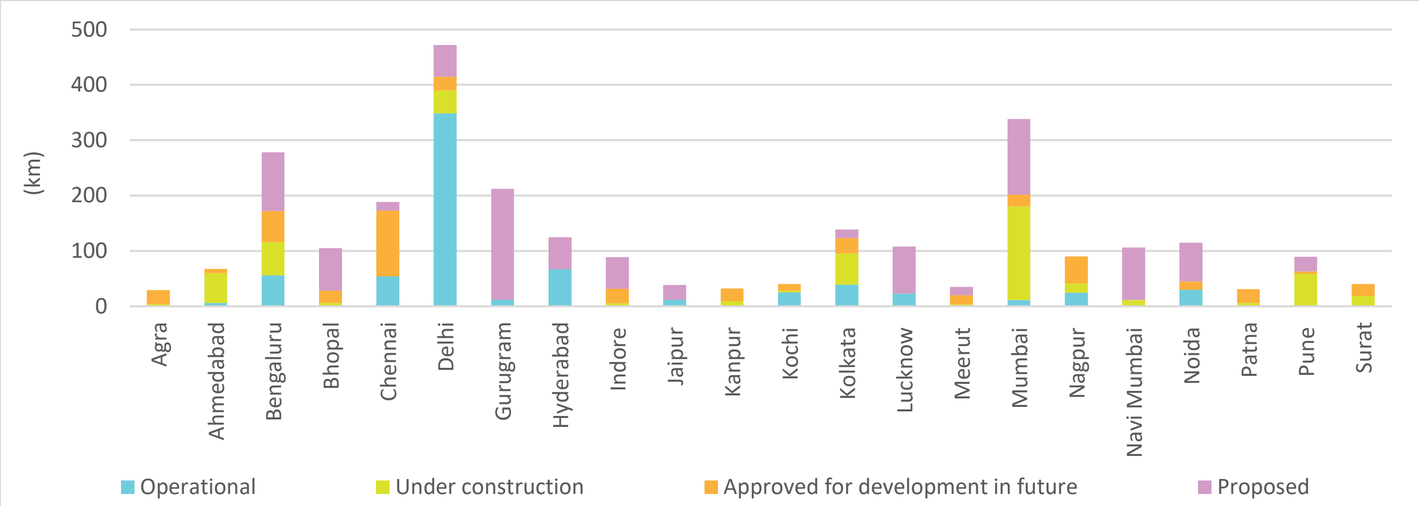
With metro rail projects being underway in more than 20 cities and more cities likely to join the bandwagon soon, India is truly witnessing a metro rail revolution (refer to ***INFRA SCAPE' - Metrolution: No signs of abating***). We believe that by the end of the current decade, close to 30 cities in the country will either already have a metro network or would have started work on getting one.

Exhibit 85: Status of metro rail development in the country

Status	City
Operational	Ahmedabad, Bengaluru, Chennai, Delhi, Gurugram, Hyderabad, Jaipur, Kochi, Kolkata, Lucknow, Mumbai, Nagpur, Noida
Under construction	Ahmedabad, Agra, Bengaluru, Bhopal, Chennai, Delhi, Indore, Kanpur, Kochi, Kolkata, Meerut, Mumbai, Nagpur, Navi Mumbai, Patna, Pune, Surat
Tendering stage	
Planning stage	Jammu, Nashik, Prayagraj, Srinagar, Gorakhpur
Concept stage	Guwahati, Varanasi, Vizag, Uttarakhand

Source: Government documents, Edelweiss Research

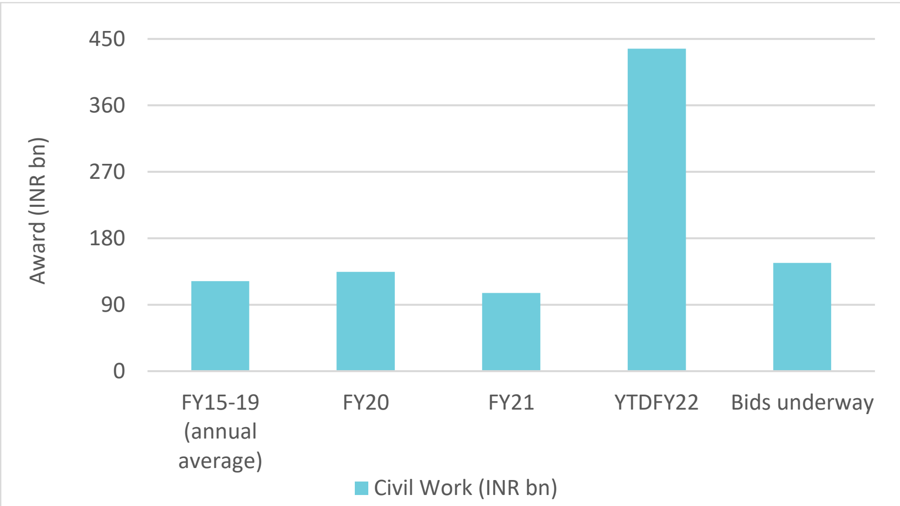
Exhibit 86: Metro rail network in the country



Source: Government documents, Edelweiss Research

Aided by funding support in the form of 'soft loans' from multilateral agencies and equity contribution from central and state governments, metro rail projects haven't really faced any serious funding issues, despite the slowdown in economic growth over the past few years.

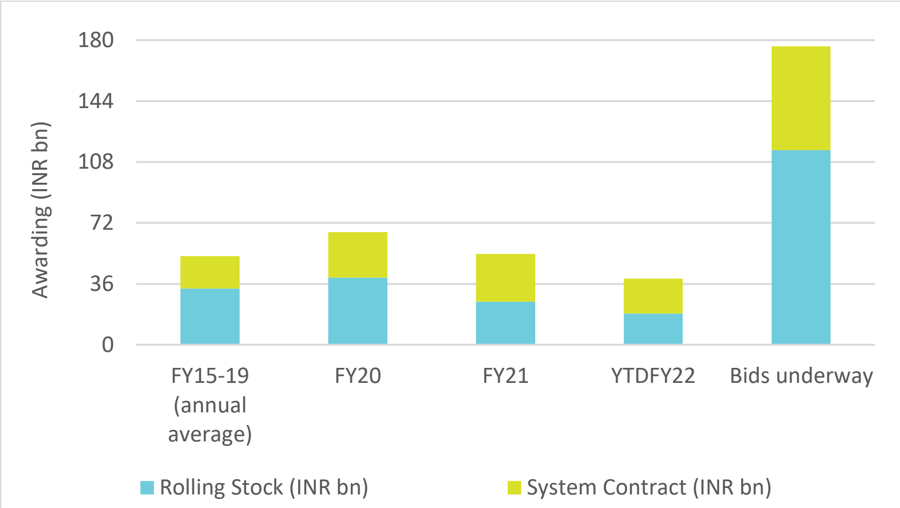
Exhibit 87: Civil construction awards in metro rail segment



Source: Government documents, Edelweiss Research

While there was a slight decline in ordering in FY21 due to the pandemic, there has been a sharp bounce back in the current fiscal. Bid pipeline in this segment also remains robust; this indicates the strong momentum in project award in the metro rail segment.

Exhibit 88: Systems and rolling stock awards in metro rail segment



Source: Government documents, Edelweiss Research

And it is the same case as far as systems and rolling stock awards are concerned. While there been a dip in ordering in recent years, the bid pipeline is robust; it is in fact higher than the cumulative quantum of projects awarded since FY19.

Overall, we believe the metro rail boom in the country will continue uninterrupted.

High Speed (HSR)/Semi-High Speed Rail (SHSR) projects

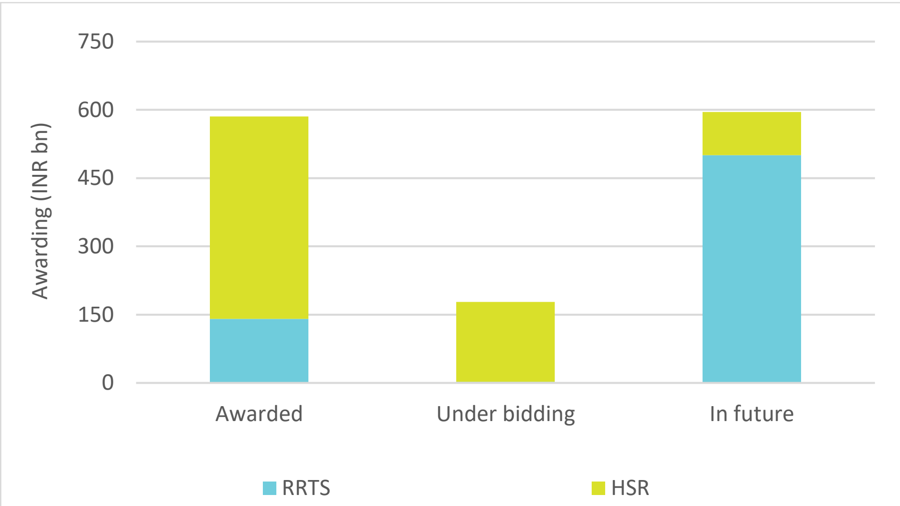
India is entering a new era of passenger rail transport through development of HSR and SHSR systems (refer to ***INFRA SCAPE' - Infra Scape - Inter-city rail: Set for hi-speed rush***). Projects such as the Mumbai-Ahmadabad HSR (MAHSR) and the Regional Rapid Transit System (RRTS) in NCR are already under construction. In addition, many other projects are at various stages of development.

For instance, the Maharashtra government has approved the INR160bn Pune-Nashik SHSR project. Apart from these, DPRs are being prepared for the following HSR projects:

- Delhi – Varanasi (865 km)
- Varanasi – Howrah (760 km)
- Delhi – Amritsar (465 km)
- Delhi – Ahmedabad (886 km)
- Mumbai – Nagpur (741km)
- Mumbai – Hyderabad (711 km)
- Chennai – Mysore (435 km)

Since these projects are of significant size and scale, the outlays will naturally be high. Even for the two projects currently under construction, viz., the MAHSR and NCR-RRTS, the cumulative project awards will easily exceed INR1tn.

Exhibit 89: MAHSR and NCR-RRTS: Status of project awards



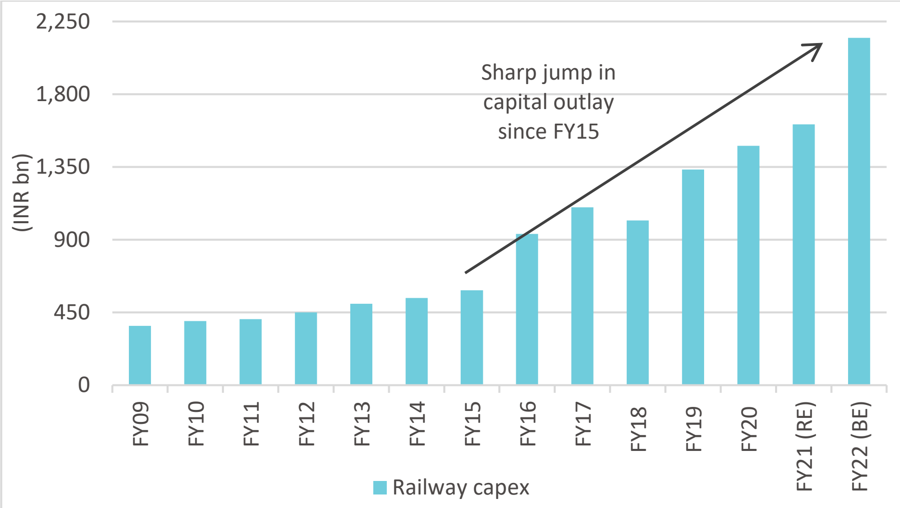
Source: Government documents, Edelweiss Research

With multiple such projects planned in the future, we believe project awards in this segment will remain high going ahead.

Indian Railways: Capex trajectory improving

Indian Railways (IR) has been on a robust growth path over the past few years as far as capex is concerned.

Exhibit 90: Indian Railways – Strong uptick in capital outlay since FY15



Source: Government documents, Edelweiss Research

Note: RE – Revised Estimate, BE – Budgeted Estimate

Note: FY21 (RE) excludes an amount of ~INR794bn provided as a 'Special Loan for COVID related resource gap' and towards liquidating the adverse balance which occurred in Public Account in FY20.

Union Budget 2022 has allocated ~INR2.1tn to the railway sector, ~34% higher than the budgeted spending in FY21. As far as FY22 is concerned, railways will focus on new lines, doubling and electrification with capex projected to increase YoY while the outlays for rolling stock and gauge conversion are likely to decline YoY.

Exhibit 91: Railways — Key plan heads

Investment by some of key plan heads (INR bn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21 (RE)	FY22 (BE)	YoY increase (%)
Grand total	504	540	587	935	1,099	1,020	1,334	1,481	1,617	2,151	33
- Of which											
New lines (Construction)	53	58	71	202	143	82	94	127	150	170	13
Gauge conversion	24	31	37	36	38	29	42	41	34	22	-37
Doubling	25	30	39	105	91	112	154	224	222	261	17
Electrification	10	13	14	23	29	38	59	71	66	75	14
Rolling stock	182	175	165	194	196	201	283	371	418	370	-11
Leased Assets - Payment of Capital Component	42	50	54	63	70	80	91	105	120	195	63
Road safety	16	20	22	47	32	32	35	35	54	55	1
Track renewals	36	50	54	44	51	77	97	78	92	93	1
Investment in Coml./Govt.Und.	6	7	6	46	0	0	29	169	156	373	139
Investment in Non Govt. and. incl. JVs/SPVs	28	40	46	54	71	49	98	0	0	0	NA
Metropolitan Transport Projects	12	9	10	13	14	8	12	15	17	19	12
Passenger Amenities	8	9	9	11	10	13	16	19	27	28	5

Source: Government documents, Edelweiss Research

Note: RE – Revised Estimate, BE – Budgeted Estimate

This will aid civil contractors, in our view.

Additional Data

Management

Chairman	Vinod Kumar Agarwal
MD	Ajendra Kumar Agarwal
CFO	Anand Rathi
Director	Vikas Agarwal
Auditor	B S R & Associates LLP

Holdings – Top 10*

	% Holding		% Holding
SBI Large and midcap	2.31	Allianz SE	0.16
ICICI Prudential	2.30	BlackRock	0.15
Kandoi Fabrics	1.54		
Smallcap world	1.51		
FIL Ltd	0.17		

Latest public data

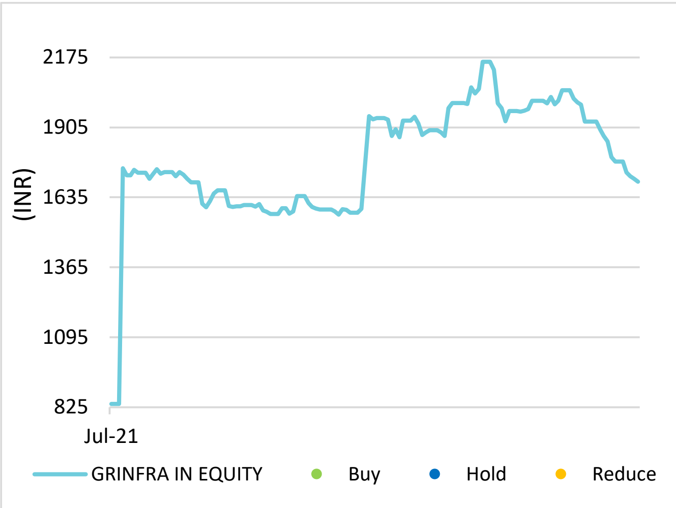
Recent Company Research

Date	Title	Price	Reco

Recent Sector Research

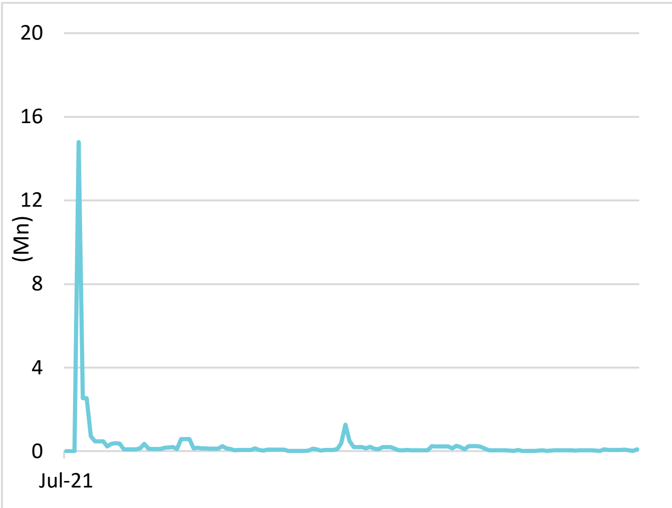
Date	Name of Co./Sector	Title
16-Nov-21	NBCC	In recovery mode; *Result Update*
15-Nov-21	PNC Infratech	Healthy performance; *Result Update*
15-Nov-21	KNR Constructions	Strong performance; *Result Update*

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	186	52	18	257
	>50bn	**>10bn and <50bn**	**<10bn**	**Total**
Market Cap (INR)	231	40	4	275

**1 stocks under review*

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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