

# GR Infraprojects (GRINFR)

CMP: ₹ 1,390

Target: ₹ 1,620 (17%)

Target Period: 12 months

August 11, 2022

## Strong show; poised for better days ahead...

**About the stock:** GR Infraprojects (GRIL) is a leading player in the roads and highways sector having an overall order book size of ₹ 17,005.6 crore.

- The company has delivered 26.6% revenue CAGR during FY16-22, well-complemented by 33.6% EBITDA CAGR and 39% PAT CAGR
- Prudent management, lean balance sheet position, healthy return ratios

**Q1FY23 Results:** GRIL reported a robust set of numbers during Q1FY23.

- Standalone revenue improved 16.1% YoY to ₹ 2,476.7 crore. On a QoQ basis, the company has reported 9.2% growth. Its revenue included ~₹ 132.8 crore bonus received for early completion of the project
- EBITDA margin was at 19.6% (up 345 bps YoY) with better project mix and receipt of early completion bonus. Effectively, EBITDA at ₹ 486.4 crore, was up 40.8% YoY. Excluding early completion bonus, margin was at 15.1%
- PAT was at ₹ 321.1 crore (up 57.7% YoY)

**What should investors do?** GRIL's share price has de-grown by ~20% over the past one year (from ~₹ 1,730 in July 2021 to ₹ 1,390 levels in August 2022).

- We assign **BUY** rating (vs. REDUCE earlier) on the company as asset monetisation through InvIT will boost scalability, ahead

**Target Price and Valuation:** We value GRIL at a target price of ₹ 1,620.

### Key triggers for future price performance:

- GRIL is likely to be one of the major recipients of thriving roads, railways and power transmission segments. Healthy order inflows to aid its order book position
- Strong order book position, receipt of appointed date in most of its projects, and execution pick-up to translate into 12.4% topline CAGR in FY22-24E
- Current order mix with built-in raw material price variation clauses in most of its contracts provides margin sustainability at ~16%
- Double-digit return ratios and lean balance sheet position

**Alternate Stock Idea:** Besides GRIL, we like HG Infra Engineering in the infra space.

- Play on strong execution and lean balance sheet
- BUY with a target price of ₹ 765/share

BUY



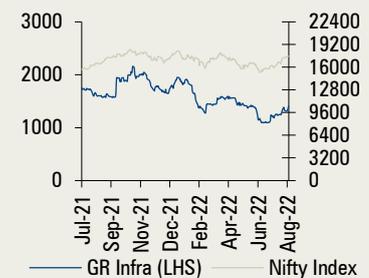
### Particulars

Particular	Amount
Market Capitalization	13,440
Total Debt (₹ crore)	1,302
Cash (₹ crore)	445
EV (₹ crore)	14,297
52 week H/L (₹)	2,277 / 1,075
Equity capital	48.3
Face value	5.0

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	86.5	86.5	86.5	86.5
DII	6.5	6.8	9.0	9.1
FII	2.9	2.6	0.3	0.2
Other	4.2	4.1	4.2	4.2

### Price Chart



### Key Risks

**Key Risk:** (i) Weaker-than-expected execution; (ii) Low order inflows

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	4,950.2	6,027.8	7,244.5	7,919.2	18.0%	8,731.8	9,997.5	12.4%
EBITDA	1,007.4	1,241.3	1,310.4	1,281.1	19.3%	1,417.2	1,609.0	12.1%
EBITDA Margin (%)	20.4	20.6	18.1	16.2		16.2	16.1	
Net Profit	595.7	688.7	780.6	760.8	6.0%	828.3	941.0	11.2%
EPS (₹)	61.6	71.2	80.7	78.7		85.7	97.3	
P/E (x)	22.6	19.5	17.2	17.7		16.2	14.3	
EV/EBITDA (x)	13.8	11.0	10.9	11.2		10.3	9.1	
RoCE (%)	29.9	28.7	24.0	19.7		18.8	18.6	
RoE (%)	27.8	24.4	21.7	17.5		16.1	15.6	

## Key business highlight and outlook

### Order book healthy; inflows guidance at ~₹ 15,000 crore

GRIL's order book (OB) as on June 30, 2022 was at ₹ 17,005.7 crore, mainly contributed by roads- HAM (82%), roads- EPC (12%), railways (4%) and transmission (2%) sector. Additionally, the OB included the value of one L-1 project amounting to ₹ 592.1 crore. Considering these, its order book value currently is healthy at ₹ 17,597.2 crore (2.2x order book to TTM bill). Going forward, the **company has guided for overall order inflows of ~₹ 15,000 crore during FY23, to be driven by a strong order pipeline in roads segment and growing opportunities in the other infrastructure verticals such as metros, ropeways, and power transmission sector. On the execution front, the management has retained their guidance of 5-10% topline growth for FY23E (vs 9.3% posted in FY22). Also, its operating margin is likely to sustain at 15-17%, going ahead, with a better product mix.**

### Lean balance sheet despite equity commitments; monetisation of HAM assets to free capital

GRIL's balance sheet has remained lean backed by its prudent strategy to mainly focus on an asset light business model and higher focus on cash generation. **At the end of Q1FY23, its gross debt, cash & cash equivalent at the standalone level was at ₹ 1,055 crore, ₹ 295 crore, respectively. The net D/E remained steady at ~0.2x over the past few years. Going forward, it has total equity requirement of ₹ 1,880 crore towards under-execution and L1 projects over the next two to three years. Despite these, we expect its debt to remain at comfortable levels with healthy operating cash flow generation arising from improved profitability and, better cash flow management. Also, GRIL maintains optimal mix of interest bearing liabilities (mix of debentures, term loan, working capital loan) aiding towards nominal interest outgo. Further, the company is looking to monetise its HAM portfolio via InvIT, which would free its invested capital.**

### Key conference call takeaways

- MoRTH has tendered 969 km during Q1FY23 (vs. 1,681 km in Q1 FY22). Overall, the authority is targeting to award ~330 projects during FY23 valued at ₹ 2.3 lakh crore, providing **good visibility and the management expects tendering activity to pick-up considerably during H2FY23**
- GRIL had submitted their bid for projects valued at ~₹ 12,000 crore in the field of roads, power transmission and metros during Q1FY23. While the company has not tasted any success for submitted bids till now (results declared for projects amounting to ₹ 10,000 crore), it is expecting favourable results in balance tendered projects. **Overall, the company has guided for ₹ 15,000 crore of order inflows during FY23 largely targeting roads (₹ 10,000-12,000 crore), and railways, metro, ropeway, and power transmission (₹ 3,000- 5,000 crore) segments.** Identified pipeline in the power transmission projects is currently at ₹ 15,000 crore
- **The management expects competitive intensity to decline ahead** as MoRTH/NHAI is gradually removing relaxations provided due to Covid-19 pandemic. This is likely to aid organised road developers in securing more projects at sensible bid project costs
- MoRTH/NHAI are contemplating to grant ~20% of the bid project cost during the construction period of HAM projects (against current norm of 40%). While this would require additional investments by private developers, the authority would be able bid out more projects with same capital
- **Out of its total order book position of ₹ 17,005.7 crore, orders worth ~₹ 10,000 crore are currently under execution while the company is awaiting appointed date in balance jobs (eight HAM projects having EPC value of ~₹ 7,000 crore). It expects receipts of appointed date in majority of newly secured HAM projects by FY23-end. This is likely aid overall execution pace ahead**

- GRIL has **recognised one-off income (early completion bonus) amounting to ~₹ 132.8 crore during Q1FY23 for Purvanchal Expressway project**. Adjusted to bonus amount, core EBITDA margin was at 15.1%. The lower-than-normalised level of margin is mainly impacted by a) change in project mix with higher contribution from lower margin EPC projects (63% of the total Q1FY23 revenues), b) early stage of execution in the newly commenced HAM projects (jobs do not attract high margin in the initial stage), and c) higher raw material prices. Going forward, the management has guided for 15-17% core operating margin (excluding bonuses) in FY23 to be aided by higher contribution from HAM projects and softening in commodity prices
- GRIL had secured its maiden power transmission project during FY22 namely “transmission system for evacuation of power from RE projects in Rajgarh (1500 MW) SEZ in Madhya Pradesh”. The work on the project commenced during May 2022 (EPC value: ₹ 370 crore) having 18 months of completion period. The management expects margin to be similar to its road EPC projects
- During the quarter, GRIL informed that a team of Central Bureau of Investigation (CBI) conducted a search at the residence of Vinod Kumar Agarwal (Chairman), the corporate office at Gurugram (Haryana) and various other sites. It was alleged that the NHAI officials have favoured GRIL in a road contract located in the north eastern region (executed in 2018) for processing and clearance of final bills, getting bank guarantees and release of discharge certificate. **As per the management, the case is still under investigation wherein the company is supporting CBI’s team with relevant information/documents. It expects to come clean out of the investigation**
- Bharat Highways InvIT, sponsored by GRIL, has recently been granted Certificate of Registration by Sebi as an Infrastructure Investment Trust. With this, the company is **looking to monetise its six operational NHAI’s HAM projects during initial launch stage (equity investment: ~₹ 900 crore), which would free its invested capital, going forward**. The company is targeting to launch InvIT by FY23-end
- Total investment (including loans and advances) at the end of Q1FY23 was at ₹ 1,545 crore. **Going forward, it has total equity requirement of ₹ 1,880 crore (₹ 200 crore infused during Q1FY23; ₹ 500 crore, ₹ 700 crore, ₹ 700 crore during rest-FY23, FY24 and FY25) towards already secured HAM and power transmission projects**
- Net working capital at the end of Q1FY23 was healthy at 77 days (receivable: 28 days; inventory+WIP: 84 days; payable: 35 days) compared to 72 days at FY22-end. **It expects working capital to hover in a similar range**
- GRIL has incurred capex to the tune of **₹ 145 crore during Q1FY23 and has guided for overall ~₹ 300-400 crore of capex during FY23** required to be spent for newer projects and jobs in newer targeting segments

GRIL has built an efficient business model powered by robust execution skills and delivered strong revenue growth with elevated margins. While outcome of CBI’s investigation to remain key overhang on stock price in the near term, its outlook fundamentally remains bright with decent order book position, healthy revenue visibility, lean balance sheet structure, comfortable working capital cycle and strong return ratios. Additionally, better-than-expected order inflows and monetisation of HAM assets can act as a positive trigger. Any positive development on CBI investigation would also be key monitorable. We upgrade our rating from REDUCE to BUY with a TP of ₹ 1,620/share (based on SoTP based valuation). We value core business at 15x FY24 P/E and HAM projects at 1x equity invested.

## Peer Comparison

GRIL has successfully implemented its strategy to become a leading road contractor – mainly aided by its vast construction experience and consistent enhancement in execution skills backed by continued investment in manpower and machineries. Its pan-India presence, efficient business model with emphasis on higher in-house execution, ability to deliver projects on-time and elevated margins differentiates it among peers.

Exhibit 1: Variance Analysis

Particulars	Q1FY23	Q1FY23E	Q1FY22	Q4FY22	YoY (%)	QoQ (%)	Comments
Total Operating Income	2,476.7	2,175.8	2,133.2	2,268.1	16.1	9.2	Pick-up execution led to better-than-expected topline. Revenue included ~₹ 132.8 crore bonus received for early completion of the project
Other Income	32.0	31.7	30.2	33.1	5.8	-3.5	
Consumption of raw materials	1,778.3	1,647.1	1,637.1	1,679.7	8.6	5.9	
Employee benefit expenses	175.0	163.2	131.2	156.3	33.4	12.0	
Other Expenses	37.0	34.8	19.4	29.1	90.2	27.0	
EBITDA	486.4	330.7	345.4	403.0	40.8	20.7	
EBITDA Margin (%)	19.6	15.2	16.2	17.8	345 bps	187 bps	Better project mix supported margin performance. Excluding early completion bonus, margin was at 15.1%
Depreciation	-63.4	-71.2	-66.6	-61.7	-4.8	2.7	
Interest	-26.9	-39.2	-38.8	-27.3	-30.5	-1.3	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
PBT	428.0	252.0	270.2	347.0	58.4	23.3	
Taxes	-106.9	-63.5	-66.6	-81.9	60.5	30.6	
PAT	321.1	188.5	203.6	265.2	57.7	21.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22		FY23E			FY24E			Comments
	Old	New	Old	New	% Change	Old	New	% Change	
Revenue	7,919.2	8,387.4	8,731.8		4.1	9,997.4	9,997.5	0.0	Realign estimates
EBITDA	1,281.1	1,333.3	1,417.2		6.3	1,609.0	1,609.0	0.0	
EBITDA Margin (%)	16.2	15.9	16.2		33 bps	16.1	16.1	0 bps	
PAT	760.8	764.0	828.3		8.4	940.1	941.0	0.1	
Diluted EPS (₹)	78.7	79.0	85.7		8.4	97.2	97.3	0.1	

Source: Company, ICICI Direct Research

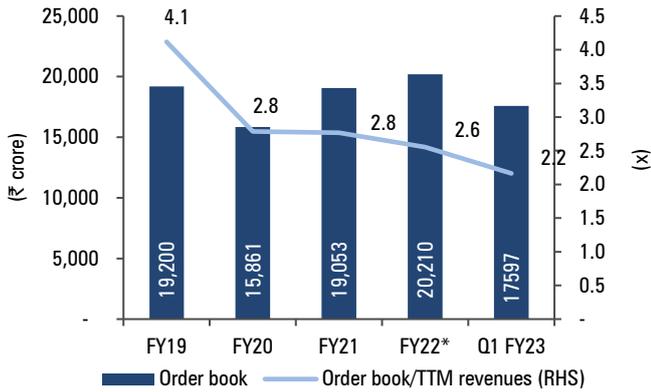
Exhibit 3: Valuation Table

Particular	Valuation method	₹/share
Standalone EPC business	15x FY24E EPS	1,458
HAM Projects	1x P/B	160
<b>Total (Rounded off)</b>		<b>1,620</b>

Source: Company, ICICI Direct Research

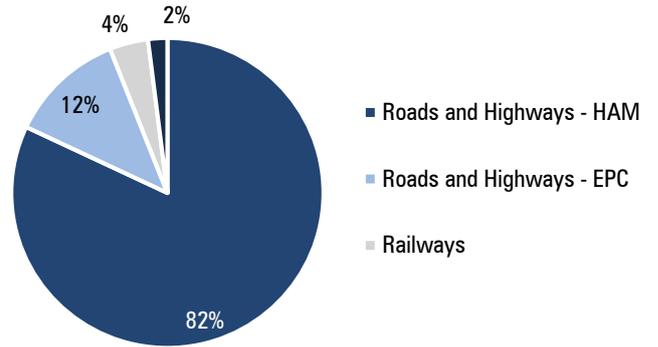
## Company Analysis

Exhibit 4: Order book trend\*



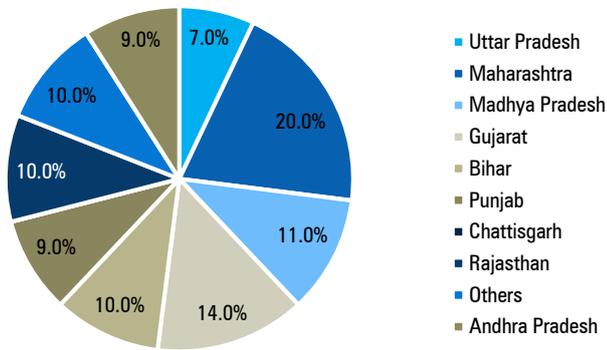
Source: Company, ICICI Direct Research; \*Including L1 position

Exhibit 5: Order book composition



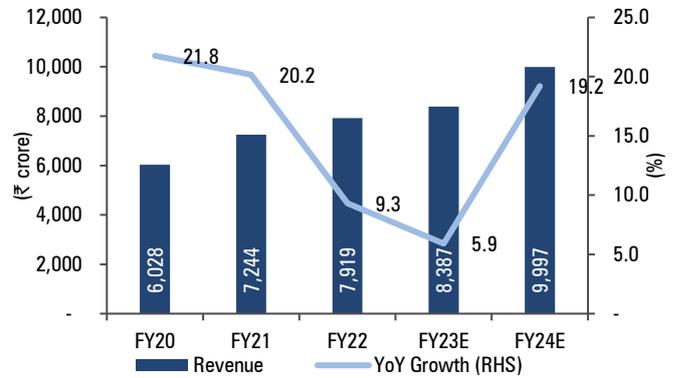
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



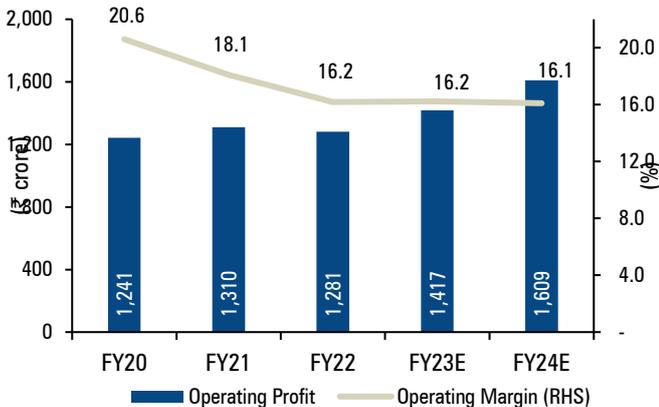
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



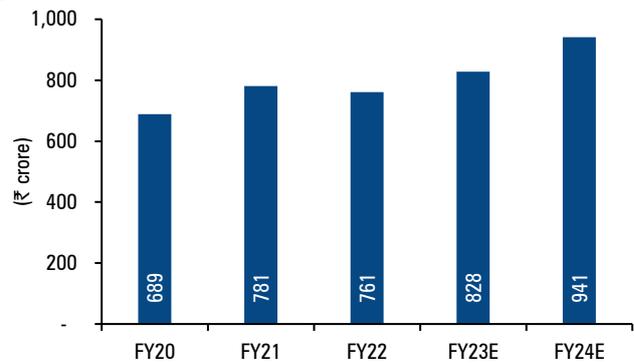
Source: Company, ICICI Direct Research

Exhibit 8: Annual EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 9: Annual PAT trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>7,244.5</b>	<b>7,919.2</b>	<b>8,731.8</b>	<b>9,997.5</b>
Growth (%)	20.2	9.3	10.3	14.5
Raw Material Cost	5,384.1	5,930.8	6,531.4	7,468.1
Employee Cost	454.8	586.4	655.5	776.7
Other Expenditure	95.2	120.9	127.7	143.7
Total Operating Expenditure	5,934.1	6,638.1	7,314.6	8,388.5
<b>EBITDA</b>	<b>1,310.4</b>	<b>1,281.1</b>	<b>1,417.2</b>	<b>1,609.0</b>
Growth (%)	5.6	(2.2)	10.6	13.5
Other income	127.5	132.4	144.7	152.8
Depreciation	226.8	281.6	313.2	342.6
EBIT	1,211.0	1,131.8	1,248.8	1,419.2
Interest	139.6	126.9	141.4	161.1
PBT	1,071.4	1,005.0	1,107.4	1,258.0
Tax	290.8	241.1	279.1	317.0
<b>Rep. PAT</b>	<b>780.6</b>	<b>763.9</b>	<b>828.3</b>	<b>941.0</b>
Exceptional items				
<b>Adj. Net Profit</b>	<b>780.6</b>	<b>763.9</b>	<b>828.3</b>	<b>941.0</b>
Growth (%)	13.3	(2.1)	8.4	13.6
<b>EPS (₹)</b>	<b>80.7</b>	<b>78.7</b>	<b>85.7</b>	<b>97.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	780.6	760.8	828.3	941.0
Depreciation	226.8	281.6	313.2	342.6
Interest	139.6	126.9	141.4	161.1
Others	(128.3)	(152.3)	(144.7)	(152.8)
Cash Flow before wc changes	1,018.7	1,017.0	1,138.2	1,292.0
Net Increase in Current Assets	(663.5)	(327.5)	(437.3)	(327.7)
Net Increase in Current Liabilities	113.3	(334.4)	150.8	191.9
<b>Net CF from operating activities</b>	<b>468.5</b>	<b>355.1</b>	<b>851.7</b>	<b>1,156.1</b>
Net purchase of Fixed Assets	(567.3)	(425.0)	(250.0)	(275.0)
Others	(334.4)	151.1	(668.9)	(718.3)
<b>Net CF from Investing Activities</b>	<b>(901.7)</b>	<b>(273.9)</b>	<b>(918.9)</b>	<b>(993.3)</b>
Proceeds from share capital	(3.2)	(1.7)	(0.0)	0.0
Proceeds/Repayment from Loan	277.1	(49.1)	105.9	147.3
Interest paid	(139.6)	(126.9)	(141.4)	(161.1)
Others	-	-	(48.3)	(67.7)
<b>Net CF rom Financing Activities</b>	<b>134.4</b>	<b>(177.7)</b>	<b>(83.8)</b>	<b>(81.5)</b>
<b>Net Cash flow</b>	<b>(298.9)</b>	<b>(96.5)</b>	<b>(151.1)</b>	<b>81.3</b>
Opening Cash and Cash Equivalent	840.3	541.6	445.0	294.0
<b>Closing Cash &amp; cash equivalents</b>	<b>541.4</b>	<b>445.0</b>	<b>294.0</b>	<b>375.3</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity capital	48.3	48.3	48.3	48.3
Reserves & Surplus	3,556.1	4,315.2	5,095.2	5,968.5
Networth	3,604.4	4,363.6	5,143.5	6,016.9
Loan Funds	1,351.1	1,302.0	1,407.9	1,555.2
Deferred Tax liability	63.8	43.8	43.8	43.8
Other financial liabilities	32.4	32.0	32.0	32.1
<b>Total Liabilities</b>	<b>5,051.7</b>	<b>5,741.4</b>	<b>6,627.3</b>	<b>7,647.9</b>
<b>Assets</b>				
Net Block	1,345.1	1,484.6	1,421.5	1,353.8
Capital WIP	55.5	59.4	59.4	59.4
Non-current Investments	363.6	323.6	1,025.5	1,778.4
Othe non-current assets	1,092.2	1,113.5	1,225.3	1,343.5
Loans	-	-	-	-
Inventories	1,058.4	1,021.8	1,148.3	1,287.3
Trade Receivables	867.6	715.5	956.9	1,095.6
Cash & Bank Balances	541.6	445.0	294.0	375.3
Loans & Advances	56.6	-	-	-
Other current assets	977.1	1,549.8	1,619.2	1,669.2
Total current assets	3,501.3	3,732.2	4,018.4	4,427.4
Total Current liabilities	1,306.0	972.0	1,122.7	1,314.6
Net Current Assets	2,195.2	2,760.2	2,895.7	3,112.9
<b>Total Assets</b>	<b>5,051.7</b>	<b>5,741.4</b>	<b>6,627.3</b>	<b>7,647.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Reported EPS	80.7	78.7	85.7	97.3
Cash EPS	104.2	107.8	118.1	132.8
BV per share	372.8	451.3	532.0	622.3
Revenue per share	749.3	819.0	903.1	1,034.0
Cash Per Share	56.0	46.0	30.4	38.8
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.1	16.2	16.2	16.1
EBIT/ Net Sales	15.0	12.6	12.6	12.7
PAT Margin	10.8	9.6	9.5	9.4
Inventory days	53.3	47.1	48.0	47.0
Debtor days	43.7	33.0	40.0	40.0
Creditor days	36.7	33.0	35.0	36.0
<b>Return Ratios (%)</b>				
RoE	21.7	17.5	16.1	15.6
RoCE	24.0	19.7	18.8	18.6
RoIC	24.3	19.1	17.6	17.6
<b>Valuation Ratios (x)</b>				
P/E	17.2	17.7	16.2	14.3
EV / EBITDA	10.9	11.2	10.3	9.1
EV / Net Sales	1.9	1.8	1.6	1.5
Price to Book Value	3.7	3.1	2.6	2.2
<b>Solvency Ratios (x)</b>				
Debt / EBITDA	1.0	1.0	1.0	1.0
Net Debt / Equity	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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