

GR Infraprojects (GRINFR)

CMP: ₹ 1,165

Target: ₹ 1,475 (27%)

Target Period: 12 months

BUY

November 13, 2022

Weak show; InvIT launch –near term trigger!

About the stock: GR Infraprojects (GRIL) is a leading player in the roads and highways sector having overall an order book size of ₹ 16,222 crore.

- The company 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

Q2FY23 Results: GRIL reported a weak set of Q2FY23 numbers.

- Standalone revenue grew merely by 4.6% YoY to ₹ 1,777.2 crore impacted by depleted executable order book position and prolonged rainy season
- EBITDA margin moderated to 14.6% (down 172 bps YoY) due to higher input cost, elevated level of CSR expense and higher provisions. Effectively, EBITDA at ₹ 260 crore, was down 6.5% YoY
- PAT was at ₹ 164.3 crore (up 0.8% YoY)

What should investors do? GRIL's share price has de-grown ~33% over the past one and half years (from ~₹ 1,730 in July 2021 to ₹ 1,165 levels in November 2022).

- We maintain our **BUY** rating on the stock as asset monetisation through InvIT will boost scalability, ahead

Target Price and Valuation: We value GRIL at a target price of ₹ 1,475.

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 over FY22-24E
- Current order mix with built-in raw material price variation clauses in most of its contracts provides margin sustainability at ~15-16%
- Double-digit return ratios and lean balance sheet position

Alternate Stock Idea: Besides GRIL, we like PSP Projects in the infra space.

- Play on strong execution and lean balance sheet
- BUY with a target price of ₹ 720/share



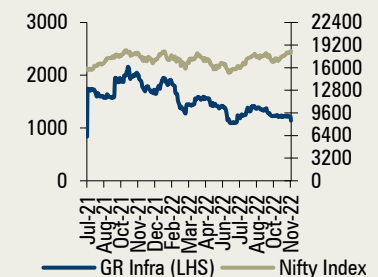
Particulars

Particular	Amount
Market Capitalization	11,245
Total Debt (₹ crore)	1,302
Cash (₹ crore)	445
EV (₹ crore)	12,102
52 week H/L (₹)	2,070 / 1,075
Equity capital	48.3
Face value	5.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	86.5	86.5	86.5	79.74
FII	2.6	0.3	0.2	0.63
DII	7.5	9.8	9.1	15.67
Others	3.4	3.4	4.2	4.0

Price Chart



Key Risks

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

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	6,027.8	7,244.5	7,919.2	18.0%	8,387.4	9,997.4	12.4%
EBITDA	1,241.3	1,310.4	1,281.1	19.3%	1,333.0	1,608.4	12.1%
EBITDA Margin (%)	20.6	18.1	16.2		15.9	16.1	
Net Profit	688.7	780.6	760.8	6.0%	772.8	928.9	10.5%
EPS (₹)	71.2	80.7	78.7		79.9	96.1	
P/E (x)	16.3	14.4	14.8		14.6	12.1	
EV/EBITDA (x)	9.2	9.2	9.4		9.3	7.8	
RoCE (%)	28.7	24.0	19.7		17.9	18.5	
RoE (%)	24.4	21.7	17.5		15.2	15.6	

Source: Company, ICICI Direct Research

Key business highlight and outlook

Order book at ₹ 15,630 crore; inflows guidance at ₹ 15,000 crore

GRIL's order book (OB) as on September 30, 2022 was at ₹ 15,630 crore, mainly contributed by roads- HAM (85%), roads- EPC (9%), railways (4%) and transmission (2%) sector. Additionally, the OB included the value of one L-1 project amounting to ₹ 592 crore. Considering these, its order book value is currently at ₹ 16,222 crore (1.9x 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 15-16%, going ahead with 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 Q2FY23, its gross debt, cash and cash equivalent at the standalone level was at ₹ 1,170.3 crore, ₹ 290.3 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

- GRIL has **guided for ~5-10% topline growth during FY23 due to a) depleting executable order book position and b) delays in receipt of appointed date in certain projects. However, the management expects topline growth to normalise to 15-20% CAGR over next couple of years with ramp up in execution given a) elevated level of inflows, b) strong order book position and c) receipt of appointed in most of the projects**
- GRIL has **recognised one-off income (early completion bonus) amounting to ~₹ 6 crore during Q2FY23. However, the company recognised higher CSR expense (₹ 5 crore) and higher provisions for long term debtors (₹ 12 crore) during Q2FY23. These, along with higher input cost, has impacted EBITDA margin, to some extent. Going forward, the management has guided for 15-16% core operating margin (excluding bonuses) in FY23 to be aided by higher contribution from HAM projects and softening in commodity prices**
- GRIL has **identified the bid pipeline (HAM projects) of ~₹ 55,000 crore from NHAI side, which is likely to get awarded by FY23-end. Additionally, the pipeline in power transmission is healthy at ~₹ 5,000-6,000 crore**
- GRIL had **submitted their bid for projects valued at ~₹ 16,450 crore in the field of roads, ropeway and metros during Q2FY23. While the company has not tasted any success for submitted bids till now, it is expecting favourable results in tendered projects**
- Overall, the **company has guided for ₹ 15,000 crore of order inflows during FY23 largely targeting from roads (₹ 10,000-12,000 crore) and railways, metro, ropeway, and power transmission (₹ 3,000- 5,000 crore) segments**
- The management has **indicated towards a decline in 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**

- Out of its **total order book position of ₹ 16,222 crore, orders worth ~₹ 10,100 crore are currently under execution while the company is awaiting appointed date in balance jobs (six HAM projects having EPC value of ~₹ 5,500 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 achieved financial closure for six HAM projects post Q1FY23 namely a) GR Ujjain Badnawar Highway Pvt Ltd (FC secured date: August 8, 2022), b) GR Govindpur Rajura Highway Pvt Ltd (August 5, 2022), c) GR Bamni Highway Pvt Ltd (September 19, 2022), d) GR Bhimasar Bhuj Highway Pvt Ltd (October 12, 2022), e) GR Madanapalli Pileru Highway Pvt Ltd (October 15, 2022) and f) GR Bandikui Jaipur Highway Pvt Ltd (October 20, 2022)
- GRIL has secured appointed date in two HAM projects recently for a) GR Ujjain Badnawar Highway Pvt Ltd, and b) GR Govindpur Rajura Highway Pvt Ltd. With these, the company has nine operational HAM projects, nine HAM projects under construction stage whereas awaiting AD in six projects
- 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 with its road EPC projects
- During Q1FY23, GRIL said 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 has been alleged that the NHAI officials have favored 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. However, the company has got a letter from MoRTH for debarment for one month with effect from mid-November 2022 for which it has submitted its response**
- **Bharat Highways InvIT, sponsored by GRIL, has been granted Certificate of Registration by Sebi as an Infrastructure Investment Trust. At present, the technical due diligence in SPVs are under progress and likely to get concluded over next few months.** With this, the company is **looking to monetise its seven operational NHAI's HAM projects during initial launch stage (equity investment: ~₹ 900-1,000 crore), which would free its invested capital, going forward.** The company is aiming to launch InvIT by FY23-end
- Net working capital at the end of Q2FY23 has increased to 85 days (receivable: 31 days; inventory + WIP: 70 days; payable: 31 days) as compared to 77 days at Q1FY23-end. It expects working capital to hover in the range of 70-85 days
- GRIL has total equity requirement of ₹ 1,880 crore (~₹ 200 crore infused during H1 FY23; ₹ 450 crore, ₹ 700 crore, ₹ 700 crore during rest-FY23, FY24 and FY25) towards already secured HAM and power transmission projects
- GRIL has **incurred capex to the tune of ₹ 215 crore during H1FY23 and guided for overall ~₹ 350 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 would 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. We maintain BUY rating on the stock with a TP of ₹ 1,475/share (based on SoTP based valuation). We value core business at 14x FY24 P/E (reduced target multiple risk arisen due to muted inflows at YTD level and lower executable order book) 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	Q2FY23	Q2FY23E	Q2FY22	Q1FY23	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,777.2	1,956.6	1,699.5	2,476.7	4.6	-28.2	Topline impacted by depleted executable order book position and prolonged rainy season
Other Income	51.9	33.5	33.9	32.0	52.9	62.4	
Consumption of raw materials	1,311.8	1,477.2	1,247.4	1,778.3	5.2	-26.2	
Employee benefit expenses	161.9	142.8	150.3	175.0	7.7	-7.5	
Other Expenses	43.5	33.3	24.0	37.0	81.6	17.6	
EBITDA	260.0	303.3	277.9	486.4	-6.5	-46.6	
EBITDA Margin (%)	14.6	15.5	16.4	19.6	-172 bps	-501 bps	Higher input cost, elevated level of CSR expense, and higher provisions led to EBITDA moderation
Depreciation	-62.0	-65.9	-71.0	-63.4	-12.6	-2.2	
Interest	-23.6	-28.3	-31.1	-26.9	-24.2	-12.5	
PBT	226.3	242.6	209.8	428.0	7.9	-47.1	
Taxes	-62.0	-61.1	-46.7	-106.9	32.6	-42.0	
PAT	164.3	181.5	163.0	321.1	0.8	-48.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	8,731.8	8,387.4	-3.9	9,997.4	9,997.4	0.0	Realignment of estimates post Q2FY23
EBITDA	1,417.2	1,333.0	-5.9	1,609.0	1,608.4	0.0	
EBITDA Margin (%)	16.2	15.9	-31 bps	16.1	16.1	-1 bps	
PAT	828.3	772.8	-6.7	941.0	928.9	-1.3	
Diluted EPS (₹)	85.7	79.9	-6.7	97.3	96.1	-1.3	

Source: Company, ICICI Direct Research

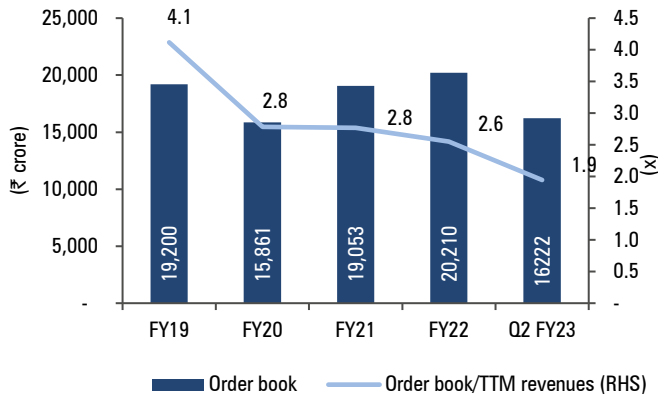
Exhibit 3: Valuation Table

Particular	Valuation method	₹ /share
Standalone EPC business	16x FY24E EPS	1,345
HAM Projects	1x P/B	128
Total (Rounded off)		1,475
CMP		1,163
Potential upside (%)		27%

Source: Company, ICICI Direct Research

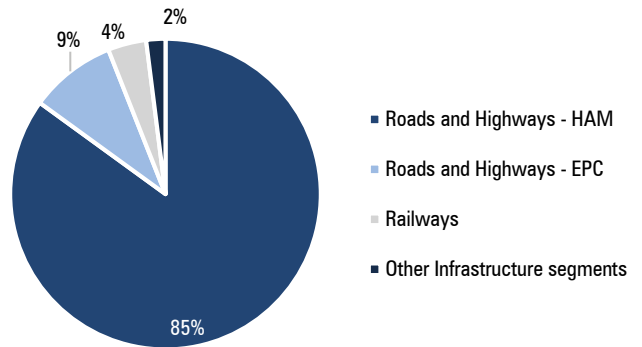
Company Analysis

Exhibit 4: Order book trend*



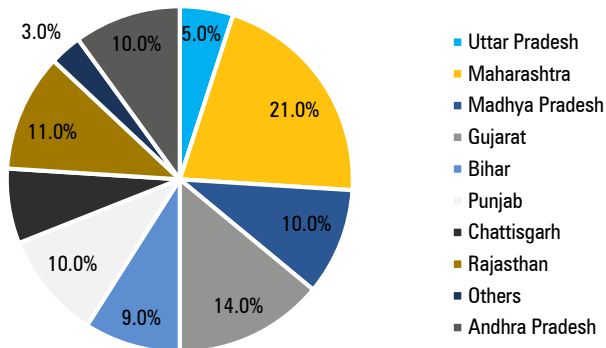
Source: Company, ICICI Direct Research; *Including L1 position

Exhibit 5: Order book composition



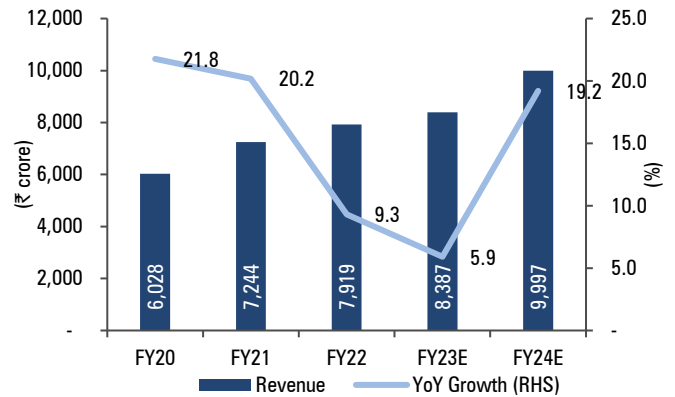
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



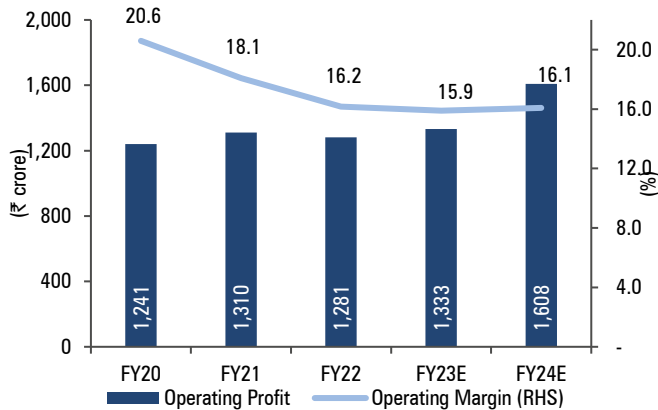
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



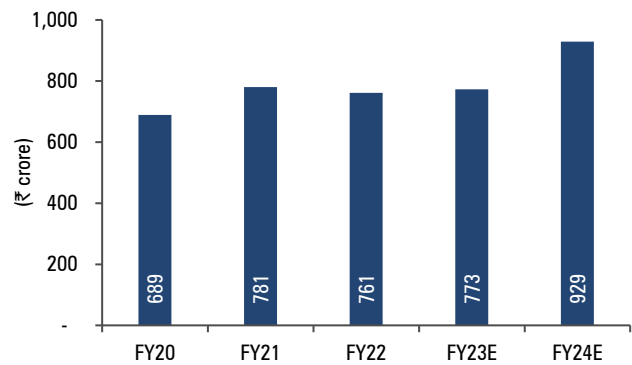
Source: Company, ICICI Direct Research

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
Net Sales	7,244.5	7,919.2	8,387.4	9,997.4
Growth (%)	20.2	9.3	5.9	19.2
Raw Material Cost	5,384.1	5,930.8	6,273.8	7,468.1
Employee Cost	454.8	586.4	655.5	776.7
Other Expenditure	95.2	120.9	125.1	144.3
Total Operating Expenditure	5,934.1	6,638.1	7,054.3	8,389.0
EBITDA	1,310.4	1,281.1	1,333.0	1,608.4
Growth (%)	5.6	(2.2)	4.1	20.7
Other income	127.5	132.4	142.2	148.7
Depreciation	226.8	281.6	301.1	354.8
EBIT	1,211.0	1,131.8	1,174.1	1,402.3
Interest	139.6	126.9	140.9	160.4
PBT	1,071.4	1,005.0	1,033.2	1,241.8
Tax	290.8	241.1	260.4	312.9
Rep. PAT	780.6	763.9	772.8	928.9
Exceptional items				
Adj. Net Profit	780.6	763.9	772.8	928.9
Growth (%)	13.3	(2.1)	1.2	20.2
EPS (₹)	80.7	78.7	79.9	96.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	780.6	760.8	772.8	928.9
Depreciation	226.8	281.6	301.1	354.8
Interest	139.6	126.9	140.9	160.4
Others	(128.3)	(152.3)	(142.2)	(148.7)
Cash Flow before wc changes	1,018.7	1,017.0	1,072.7	1,295.5
Net Increase in Current Assets	(663.5)	(327.5)	(290.4)	(474.6)
Net Increase in Current Liabilities	113.3	(334.4)	110.0	232.7
Net CF from operating activities	468.5	355.1	892.3	1,053.5
Net purchase of Fixed Assets	(567.3)	(425.0)	(350.0)	(275.0)
Others	(334.4)	151.1	(665.7)	(728.2)
Net CF from Investing Activities	(901.7)	(273.9)	####	(1,003.2)
Proceeds from share capital	(3.2)	(1.7)	(0.0)	0.0
Proceeds/Repayment from Loan	277.1	(49.1)	86.2	156.0
Interest paid	(139.6)	(126.9)	(140.9)	(160.4)
Others	-	-	(48.3)	(67.7)
Net CF rom Financing Activities	134.4	(177.7)	(103.0)	(72.1)
Net Cash flow	(298.9)	(96.5)	(226.4)	(21.8)
Opening Cash and Cash Equivalent	840.3	541.6	445.0	218.7
Closing Cash & cash equivalents	541.4	445.0	218.7	196.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity capital	48.3	48.3	48.3	48.3
Reserves & Surplus	3,556.1	4,315.2	5,039.7	5,900.9
Networth	3,604.4	4,363.6	5,088.0	5,949.2
Loan Funds	1,351.1	1,302.0	1,388.2	1,544.2
Deferred Tax liability	63.8	43.8	43.8	43.8
Other financial liabilities	32.4	32.0	32.0	32.1
Total Liabilities	5,051.7	5,741.4	6,552.1	7,569.4
Assets				
Net Block	1,345.1	1,484.6	1,533.5	1,453.7
Capital WIP	55.5	59.4	59.4	59.4
Non-current Investments	363.6	323.6	1,024.7	1,778.4
Othe non-current assets	1,092.2	1,113.5	1,220.3	1,343.5
Loans	-	-	-	-
Inventories	1,058.4	1,021.8	1,103.0	1,287.3
Trade Receivables	867.6	715.5	919.2	1,095.6
Cash & Bank Balances	541.6	445.0	218.7	196.9
Loans & Advances	56.6	-	-	-
Other current assets	977.1	1,549.8	1,555.4	1,669.2
Total current assets	3,501.3	3,732.2	3,796.2	4,249.0
Total Current liabilities	1,306.0	972.0	1,082.0	1,314.6
Net Current Assets	2,195.2	2,760.2	2,714.2	2,934.4
Total Assets	5,051.7	5,741.4	6,552.1	7,569.4

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	80.7	78.7	79.9	96.1
Cash EPS	104.2	107.8	111.1	132.8
BV per share	372.8	451.3	526.2	615.3
Revenue per share	749.3	819.0	867.5	1,034.0
Cash Per Share	56.0	46.0	22.6	20.4
Operating Ratios (%)				
EBITDA Margin	18.1	16.2	15.9	16.1
EBIT/ Net Sales	15.0	12.6	12.3	12.5
PAT Margin	10.8	9.6	9.2	9.3
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
Return Ratios (%)				
RoE	21.7	17.5	15.2	15.6
RoCE	24.0	19.7	17.9	18.5
RoIC	24.3	19.1	16.4	17.1
Valuation Ratios (x)				
P/E	14.4	14.8	14.6	12.1
EV / EBITDA	9.2	9.4	9.3	7.8
EV / Net Sales	1.6	1.5	1.4	1.2
Price to Book Value	3.1	2.6	2.2	1.9
Solvency Ratios (x)				
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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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