

## CBI raid triggers uncertainty...

**About the stock:** GR Infracore (GRIL) is a leading player in the roads and highways sector having overall order book size of ₹ 20,210 crore.

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

### Event highlights:

- The company 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 on June 13, 2022. The examination at the residence of the Chairman is complete as of now while the search is still in process at other premises
- As per media reports, the case pertains to a road contract in the north eastern region executed in 2018 for which discharge certificate was to be issued by NHAI after completion of four years of mandatory maintenance on March 31, 2022. It has been alleged that the NHAI officials have favoured GRIL in processing and clearance of final bills, getting bank guarantees and release of discharge certificate. The bribery amount was ₹ 4 lakh
- Following these, the CBI has arrested five people (including two officials of NHAI from regional office and three functionaries of GR Infra including Mr Agarwal). There may be further action depending on the findings

**What should investors do?** GRIL has built an efficient business model powered by robust execution skills and delivered strong revenue growth with elevated margins.

- However, recent development with regard to CBI's raid would remain a key overhang on the stock's performance. Till we get decent clarity, we revise our rating from BUY to **REDUCE**

**Target Price and Valuation:** We value GRIL at ₹ 1,080 based on SOTP valuation

### Key triggers for future price performance:

- Decent order book position 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 provides margin sustainability at ~16%
- No major negative disclosure from the CBI raid

**Alternate Stock Idea:** We like HG Infra Engineering in the infra space.

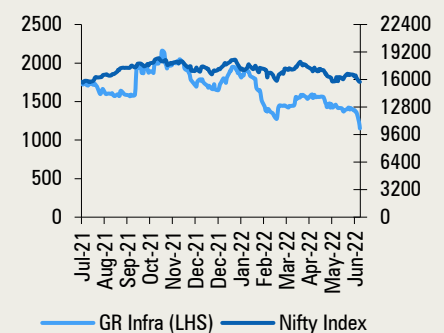
- Play on strong execution and lean balance sheet
- BUY with a target price of ₹ 735/share



### Particulars

Particular	Amount
Market Capitalization	11,130
Total Debt (₹ crore)	1,302
Cash (₹ crore)	445
EV (₹ crore)	11,987
52 week H/L (₹)	2,277 / 837
Equity capital	48.3
Face value	5.0

### Price Movement



### Key Risks

- Better-than-expected execution
- Favourable outcome of CBI raid

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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%	8,387.4	9,997.4	12.4%
EBITDA	1,007.4	1,241.3	1,310.4	1,281.1	19.3%	1,333.3	1,609.0	12.1%
EBITDA Margin (%)	20.4	20.6	18.1	16.2		15.9	16.1	
Net Profit	595.7	688.7	780.6	760.8	6.0%	764.0	940.1	11.2%
EPS (₹)	61.6	71.2	80.7	78.7		79.0	97.2	
P/E (x)	18.7	16.2	14.3	14.6		14.6	11.8	
EV/EBITDA (x)	11.5	9.2	9.1	9.4		9.1	7.7	
RoCE (%)	29.9	28.7	24.0	19.7		17.8	18.7	
RoE (%)	27.8	24.4	21.7	17.5		15.0	15.8	

## Key business highlight

### Overall OB at ₹ 20,210 crore; execution to remain healthy

GRIL's order book (OB) as on March 31, 2022 was at ₹ 13,103.9 crore, mainly contributed by roads- HAM (70%), roads- EPC (24%) and railways (6%) sector. Additionally, the OB exclude projects having L1 position in a) two metro rail projects amounting to ₹ 1,185 crore and b) recently secured seven HAM projects having EPC value of ~₹ 5,900 crore. Considering these, its order book value is currently healthy at ~₹ 20,210 crore (2.6x order book to FY22 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 railways and power transmission sector. On the execution front, the management has guided for 5-10% of topline growth in FY23E (vs 9.3% posted in FY22). Also, its operating margin is likely to sustain at 16-17%, 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 FY22, its gross debt, cash and cash equivalent at the standalone level were at ₹ 1,100 crore, ₹ 445 crore, respectively. The net D/E remained steady at ~0.2x over the past few years. Going forward, it has total equity requirement of ₹ 2,100 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.**

### Uncertainty raised by CBI raid to remain near-term overhang

CBI's raid in several locations and arrests of NHAI's officials/GRIL's functionaries in a case related to allegations of extending favours to GRIL for processing and clearance of final bills, getting bank guarantees, and release of discharge certificate has raised uninvited uncertainty. **Adverse outcome may raise many questions on corporate governance.**

## Outlook and valuation

GRIL has built an efficient business model powered by robust execution skills and delivered strong revenue growth with elevated margins. Additionally, decent order book position, healthy revenue visibility, lean balance sheet structure, comfortable working capital cycle and strong return ratios remain key positives. However, the recent development regards to CBI's raid would remain a key overhang on the performance of the stock. Till we get decent clarity, we revise our rating from BUY to REDUCE with a target price of ₹ 1,080/share (based on SoTP valuation) as lower our EPC business target multiple to 10x vs. 16x, earlier.

### Exhibit 3: Valuation

Particular	Valuation method	₹/share
Standalone EPC business	10x FY24E EPS	972
HAM Projects	0.8x P/B	108
<b>Total (Rounded off)</b>		<b>1,080</b>
CMP		1,151
Potential upside (%)		-6%

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 1: 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>8,387.4</b>	<b>9,997.4</b>
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	124.8	143.7
Total Operating Expenditure	5,934.1	6,638.1	7,054.0	8,388.4
<b>EBITDA</b>	<b>1,310.4</b>	<b>1,281.1</b>	<b>1,333.3</b>	<b>1,609.0</b>
Growth (%)	5.6	(2.2)	4.1	20.7
Other income	127.5	132.4	142.2	150.8
Depreciation	226.8	281.6	313.2	342.6
EBIT	1,211.0	1,131.8	1,162.3	1,417.2
Interest	139.6	126.9	140.9	160.4
PBT	1,071.4	1,005.0	1,021.4	1,256.8
Tax	290.8	241.1	257.4	316.7
<b>Rep. PAT</b>	<b>780.6</b>	<b>763.9</b>	<b>764.0</b>	<b>940.1</b>
Exceptional items				
<b>Adj. Net Profit</b>	<b>780.6</b>	<b>763.9</b>	<b>764.0</b>	<b>940.1</b>
Growth (%)	13.3	(2.1)	0.0	23.0
<b>EPS (₹)</b>	<b>80.7</b>	<b>78.7</b>	<b>79.0</b>	<b>97.2</b>

Source: Company, ICICI Direct Research

Exhibit 3: 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	5,030.9	5,903.3
Networth	3,604.4	4,363.6	5,079.2	5,951.6
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
<b>Total Liabilities</b>	<b>5,051.7</b>	<b>5,741.4</b>	<b>6,543.3</b>	<b>7,571.7</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	1,024.7	1,778.4
Other 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	321.9	299.1
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	3,899.4	4,351.2
Total Current liabilities	1,306.0	972.0	1,082.0	1,314.6
Net Current Assets	2,195.2	2,760.2	2,817.5	3,036.7
<b>Total Assets</b>	<b>5,051.7</b>	<b>5,741.4</b>	<b>6,543.3</b>	<b>7,571.7</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	780.6	760.8	764.0	940.1
Depreciation	226.8	281.6	313.2	342.6
Interest	139.6	126.9	140.9	160.4
Others	(128.3)	(152.3)	(142.2)	(150.8)
Cash Flow before wc changes	1,018.7	1,017.0	1,075.9	1,292.3
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
<b>Net CF from operating activities</b>	<b>468.5</b>	<b>355.1</b>	<b>895.6</b>	<b>1,050.3</b>
Net purchase of Fixed Assets	(567.3)	(425.0)	(250.0)	(275.0)
Others	(334.4)	151.1	(665.7)	(726.1)
<b>Net CF from Investing Activities</b>	<b>(901.7)</b>	<b>(273.9)</b>	<b>(915.7)</b>	<b>(1,001.1)</b>
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)
<b>Net CF rom Financing Activities</b>	<b>134.4</b>	<b>(177.7)</b>	<b>(103.0)</b>	<b>(72.1)</b>
<b>Net Cash flow</b>	<b>(298.9)</b>	<b>(96.5)</b>	<b>(123.1)</b>	<b>(22.8)</b>
Opening Cash and Cash Equivalent	840.3	541.6	445.0	321.9
<b>Closing Cash &amp; cash equivalents</b>	<b>541.4</b>	<b>445.0</b>	<b>321.9</b>	<b>299.1</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Reported EPS	80.7	78.7	79.0	97.2
Cash EPS	104.2	107.8	111.4	132.7
BV per share	372.8	451.3	525.3	615.5
Revenue per share	749.3	819.0	867.5	1,034.0
Cash Per Share	56.0	46.0	33.3	30.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.1	16.2	15.9	16.1
EBIT/ Net Sales	15.0	12.6	12.2	12.7
PAT Margin	10.8	9.6	9.1	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	15.0	15.8
RoCE	24.0	19.7	17.8	18.7
RoIC	24.3	19.1	16.6	17.6
<b>Valuation Ratios (x)</b>				
P/E	14.3	14.6	14.6	11.8
EV / EBITDA	9.1	9.4	9.1	7.7
EV / Net Sales	1.6	1.5	1.4	1.2
Price to Book Value	3.1	2.6	2.2	1.9
<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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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