

GR Infraprojects (GRINFR)

CMP: ₹ 1,182

Target: ₹ 1,400 (18%)

Target Period: 12 months

BUY

February 16, 2023

Muted performance; InvIT – near term trigger!

About the stock: GR Infraprojects (GRIL) is a leading player in the roads and highways sector with an overall order book size of ₹ 14,073 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

Q3FY23 Results: GRIL reported a muted performance during Q3FY23.

- Standalone revenue grew merely by 4.4% YoY at ₹ 1,898.8 crore
- EBITDA margin improved to 14.6% (up 60 bps YoY) with margin improvement aided by respite in raw material costs. Effectively, EBITDA at ₹ 277 crore, was up 8.6% YoY
- At the net level, PAT improved 35% YoY to ₹ 174.1, largely aided by higher other income and lower depreciation

What should investors do? GRIL's share price has de-grown by ~32% since listing (from ~₹ 1,730 in July 2021 to ₹ 1,182 levels currently).

- 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 ₹ 1,400.

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 ~10% topline CAGR over FY22-25E
- 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 ₹ 820/share

Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales	6,027.8	7,244.5	7,919.2	18.0%	8,427.9	9,331.4	10,418.9	9.6%
EBITDA	1,241.3	1,310.4	1,281.1	19.3%	1,360.1	1,454.6	1,627.7	8.3%
EBITDA Margin (%)	20.6	18.1	16.2		16.1	15.6	15.6	
Net Profit	688.7	780.6	760.8	6.0%	866.1	884.4	971.2	8.5%
EPS (₹)	71.2	80.7	78.7		89.6	91.5	100.4	
P/E (x)	16.6	14.7	15.0		13.2	12.9	11.8	
EV/EBITDA (x)	9.4	9.4	9.6		9.2	8.6	7.8	
RoCE (%)	28.7	24.0	19.7		19.3	17.5	17.0	
RoE (%)	24.4	21.7	17.5		16.7	14.7	14.1	

Source: Company, ICICI Direct Research



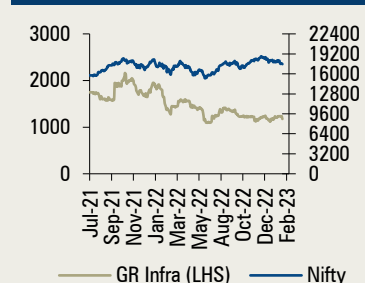
Particulars

Particular	Amount
Market Capitalization	11,432
Total Debt (₹ crore) - FY22	1,302
Cash (₹ crore) - FY22	445
EV (₹ crore)	12,289
52 week H/L (₹)	1813 / 1079
Equity capital	48.3
Face value	5.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	86.54	86.54	79.7	79.7
DII	9.0	9.1	15.7	16.1
FII	0.3	0.2	0.6	0.4
Other	4.2	4.2	4.0	3.8

Price Chart



Key Risks

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

Research Analyst

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Key business highlight and outlook

Order book at ₹ 14,073 crore; inflow guidance at ₹ 15,000 crore

GRIL's order book (OB) as on Q3 was at ₹ 14,073 crore, (1.7x order book to TTM bill). The OB is majorly contributed by roads- HAM (87%), roads- EPC (6%), railways (4%) and the transmission (2%) sector. Out of the above order book, the company is yet to receive the appointed date for one HAM project (EPC cost of ~₹ 700 crore) (Bamni to Maharashtra-Telangana border). Going forward, **GRIL 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 other infrastructure verticals such as metros, ropeways, and power transmission sector.** The company has bid for highway projects (worth ₹ 42000 crore), railway projects (worth ₹ 5000 crore), ropeway projects (₹ 2500 crore), etc. which are yet to open. On the competition, it believes it is elevated in road space but there are ample opportunities for everyone. On the execution front, the management has retained their guidance of 5-10% topline growth for FY23E (vs. 9.3% posted in FY22) and guided for ~10% revenue growth in FY24. Also, its operating margin is likely to sustain at 15-16%, going ahead, with a better product mix.

Lean balance sheet despite equity commitments

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 Q3FY23, its gross debt, cash and cash equivalent at the standalone level was at ₹ 1,137.5 crore, ₹ 396.3 crore, respectively. The net D/E was comfortable at ~0.15x. The company has invested ₹ 1805 crore as equity in its HAM projects. Going forward, it has total equity requirement of ₹ 1,580 crore (~₹ 500 crore infused during H1FY23; ₹ 200 crore, ₹ 700 crore, ₹ 700 crore to be infused during Q4FY23, FY24 and FY25) towards under-execution 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. Further, the company is looking to monetise its HAM portfolio via InvIT.**

Key conference call takeaways

- Out of its total order book position of ₹ 14,073 crore, orders worth ~₹ 13400 crore are currently under execution while the company is awaiting appointed date for only one HAM project having EPC value of ~₹ 700 crore), which has forest issues. It expects the appointed date in the next two to three months
- **CBI has filed its report and the case is pending in a court in Guwahati. Recall, during Q1FY23, GRIL informed that a team from 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 favoured GRIL in a road contract in the north eastern region (executed in 2018) for processing and clearance of final bills, getting bank guarantees and release of discharge certificate. The company had also got a letter from MoRTH for debarment for a -month with effect from mid-November 2022 for the same**
- **Bharat Highways InvIT, sponsored by GRIL, has been granted a Certificate of Registration by Sebi as an Infrastructure Investment Trust. It has also received the first set of comments from Sebi. With this, the company is looking to monetise its seven operational HAM projects from NHAI which has total debt of ₹ 3800 crore. The company is targeting to launch InvIT by April, 2023**
- Net working capital at the end of Q3FY23 has marginally reduced to 82 days (receivable: 39 days; inventory + WIP: 76 days; payable: 39 days) compared to 85 days at Q2FY23-end
- GRIL has incurred capex to the tune of ₹ 212 crore during H1FY23 and guided for further ₹ 20-₹ 25 crore capex in Q4FY23 and ₹ 200 crore in FY24
- On the transmission front, **bid pipeline is of seven projects worth ₹ 10000 crore. The company will be bidding along with IndiGrid for ~₹ 5000 crore worth of projects. GRIL will infuse equity and do the EPC for the project. It expects projects awarding by June, 2023 in the segment**

GRIL has built an efficient business model powered by robust execution skills and delivered strong revenue growth with elevated margins. While the outcome of CBI's investigation would remain a key overhang on the stock price, near term catalyst would be order inflows and INVIT listing. We maintain BUY rating on the stock with a target price of ₹ 1,400/share (based on SoTP based valuation). We value the core business at 13x FY25 P/E (roll over) and HAM projects at 1x equity invested.

Exhibit 1: Variance Analysis

Particulars	Q3FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,898.8	1,850.0	1,818.4	1,777.2	4.4	6.8	
Other Income	42.1	35.0	35.1	51.9	19.9	-18.8	
Consumption of raw materials	1,423.2	1,356.0	1,366.6	1,311.8	4.1	8.5	
Employee benefit expenses	153.6	170.0	148.7	161.9	3.3	-5.1	
Other Expenses	45.1	47.0	48.4	43.5	-6.7	3.7	
EBITDA	276.8	277.0	254.8	260.0	8.6	6.5	
EBITDA Margin (%)	14.6	15.0	14.0	14.6	57 bps	-5 bps	
Depreciation	-61.2	-64.0	-82.3	-62.0	-25.6	-1.2	
Interest	-24.8	-26.0	-29.7	-23.6	-16.6	5.3	
PBT	232.9	222.0	177.9	226.3	30.9	2.9	
Taxes	-58.8	-62.0	-45.9	-62.0	28.2	-5.2	
PAT	174.1	160.0	129.0	164.3	35.0	6.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	New	
Revenue	8,387.4	8,427.9	0.5	9,997.4	9,331.4	-6.7	10,418.9	Realignment of estimates post Q3FY23
EBITDA	1,333.0	1,360.1	2.0	1,608.4	1,454.6	-9.6	1,627.7	
EBITDA Margin (%)	15.9	16.1	24 bps	16.1	15.6	-50 bps	15.6	
PAT	772.8	866.1	12.1	928.9	884.4	-4.8	971.2	
Diluted EPS (₹)	79.9	89.6	12.1	96.1	91.5	-4.8	100.4	

Source: Company, ICICI Direct Research

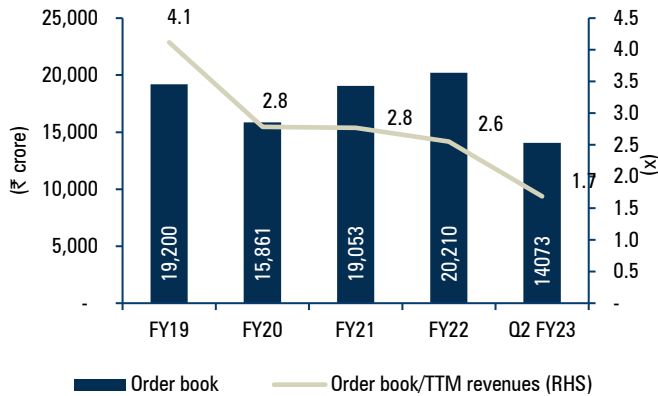
Exhibit 3: Valuation Table

Particular	Valuation method	₹/share
Standalone EPC business	13x FY25E EPS	1,256
HAM Projects	1x P/B	149
Total (Rounded off)		1,400

Source: Company, ICICI Direct Research

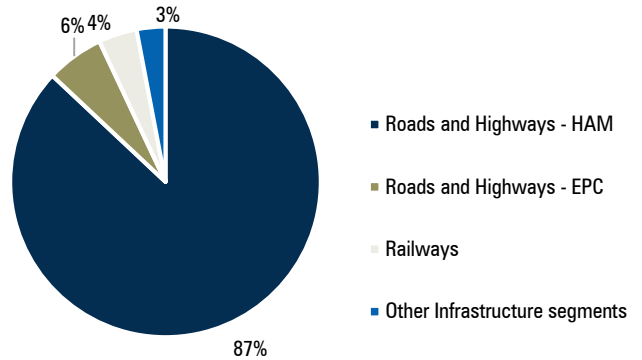
Company Analysis

Exhibit 4: Order book trend*



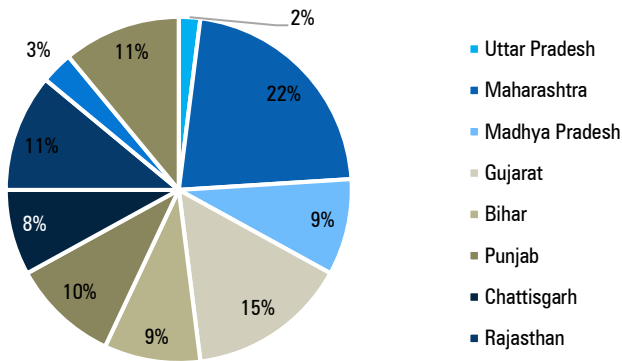
Source: Company, ICICI Direct Research; *Including L1 position

Exhibit 5: Order book composition



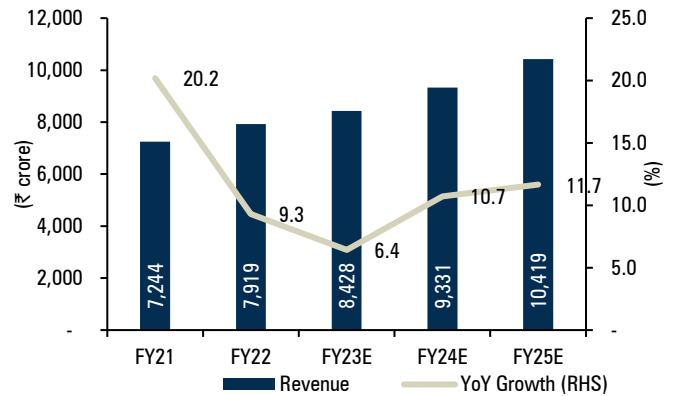
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



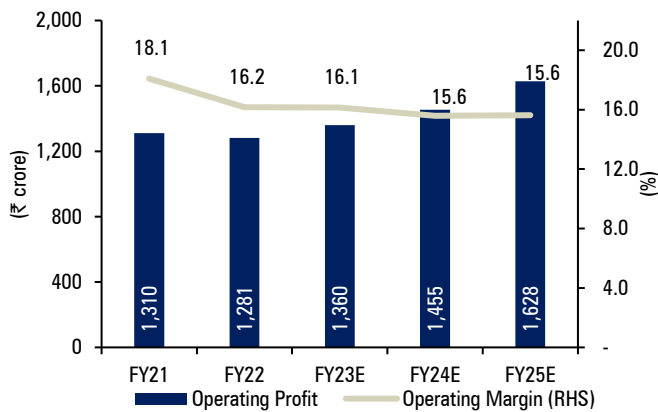
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



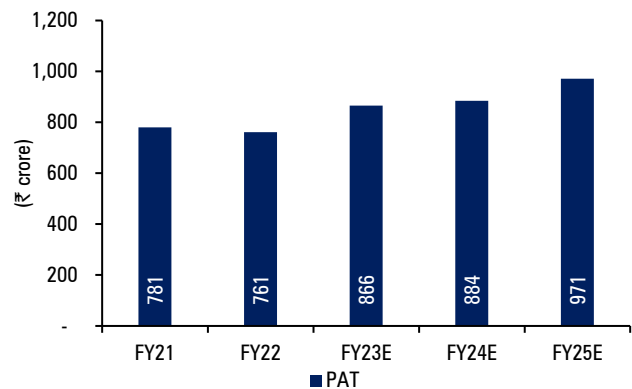
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Net Sales	7,919.2	8,427.9	9,331.4	10,418.9
Growth (%)	9.3	6.4	10.7	11.7
Raw Material Cost	5,930.8	6,245.1	6,951.9	7,751.6
Employee Cost	586.4	655.5	740.3	833.8
Other Expenditure	120.9	167.3	184.6	205.8
Total Operating Expenditure	6,638.1	7,067.8	7,876.8	8,791.2
EBITDA	1,281.1	1,360.1	1,454.6	1,627.7
Growth (%)	(2.2)	6.2	7.0	11.9
Other income	132.4	162.9	146.0	159.9
Depreciation	281.6	244.4	277.1	329.6
EBIT	1,131.8	1,278.5	1,323.6	1,458.0
Interest	126.9	109.8	130.0	147.4
PBT	1,005.0	1,168.8	1,193.6	1,310.6
Tax	241.1	302.7	309.1	339.5
Rep. PAT	763.9	866.1	884.4	971.2
Exceptional items				
Adj. Net Profit	763.9	866.1	884.4	971.2
Growth (%)	(2.1)	13.4	2.1	9.8
EPS (₹)	78.7	89.6	91.5	100.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	760.8	866.1	884.4	971.2
Depreciation	281.6	244.4	277.1	329.6
Interest	126.9	109.8	130.0	147.4
Others	(152.3)	(162.9)	(146.0)	(159.9)
Cash Flow before wc changes	1,017.0	1,057.4	1,145.5	1,288.2
Net Increase in Current Assets	(327.5)	(307.7)	(187.4)	(273.5)
Net Increase in Current Liabilities	(334.4)	114.8	141.3	32.2
Net CF from operating activities	355.1	864.5	1,099.4	1,046.9
Net purchase of Fixed Assets	(425.0)	(250.0)	(200.0)	(250.0)
Others	151.1	(645.6)	(719.0)	(707.3)
Net CF from Investing Activities	(273.9)	(895.6)	(919.0)	(957.3)
Proceeds from share capital	(1.7)	(0.0)	-	0.0
Proceeds/Repayment from Loan	(49.1)	55.6	113.7	137.7
Interest paid	(126.9)	(109.8)	(130.0)	(147.4)
Others	-	(48.3)	(67.7)	(67.7)
Net CF rom Financing Activities	(177.7)	(102.5)	(84.0)	(77.3)
Net Cash flow	(96.5)	(133.6)	96.3	12.3
Opening Cash and Cash Equivalent	541.6	445.0	311.4	407.7
Closing Cash & cash equivalents	445.0	311.4	407.7	420.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity capital	48.3	48.3	48.3	48.3
Reserves & Surplus	4,315.2	5,132.9	5,949.7	6,853.2
Networth	4,363.6	5,181.3	5,998.0	6,901.5
Loan Funds	1,302.0	1,357.6	1,471.3	1,609.0
Deferred Tax liability	43.8	43.8	43.8	43.8
Other financial liabilities	32.0	32.0	32.0	32.1
Total Liabilities	5,741.4	6,614.7	7,545.1	8,586.4
Assets				
Net Block	1,484.6	1,490.2	1,413.1	1,333.6
Capital WIP	59.4	59.4	59.4	59.4
Non-current Investments	323.6	1,024.8	1,776.9	2,529.3
Othe non-current assets	1,113.5	1,220.9	1,333.9	1,448.5
Loans	-	-	-	-
Inventories	1,021.8	1,108.3	1,201.6	1,341.6
Trade Receivables	715.5	923.6	1,022.6	1,141.8
Cash & Bank Balances	445.0	311.4	407.7	420.0
Loans & Advances	-	-	-	-
Other current assets	1,549.8	1,562.9	1,558.0	1,572.3
Total current assets	3,732.2	3,906.2	4,189.9	4,475.7
Total Current liabilities	972.0	1,086.8	1,228.0	1,260.1
Net Current Assets	2,760.2	2,819.4	2,961.9	3,215.6
Total Assets	5,741.4	6,614.7	7,545.1	8,586.4

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Reported EPS	78.7	89.6	91.5	100.4
Cash EPS	107.8	114.8	120.1	134.5
BV per share	451.3	535.9	620.3	713.8
Revenue per share	819.0	871.6	965.1	1,077.6
Cash Per Share	46.0	32.2	42.2	43.4
Operating Ratios (%)				
EBITDA Margin	16.2	16.1	15.6	15.6
EBIT/ Net Sales	12.6	13.2	12.6	12.5
PAT Margin	9.6	10.3	9.5	9.3
Inventory days	47.1	48.0	47.0	47.0
Debtor days	33.0	40.0	40.0	40.0
Creditor days	33.0	35.0	36.0	32.2
Return Ratios (%)				
RoE	17.5	16.7	14.7	14.1
RoCE	19.7	19.3	17.5	17.0
RoIC	19.1	17.9	16.6	16.0
Valuation Ratios (x)				
P/E	15.0	13.2	12.9	11.8
EV / EBITDA	9.6	9.2	8.6	7.8
EV / Net Sales	1.5	1.5	1.3	1.2
Price to Book Value	2.6	2.2	1.9	1.7
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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