

CMP: ₹ 1,402

Target: ₹ 1,690 (21%)

Target Period: 12 months

May 31, 2022

BUY

Decent show; healthy outlook ahead...

About the stock: GR Infraprojects (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
- Prudent management, lean balance sheet position, healthy return ratios

Q4FY22 Results: GRIL reported a better-than expected performance.

- Standalone revenue declined 13.7% YoY to ₹ 2,268.1 crore on the relatively higher base. On a QoQ basis, the company reported 24.7% growth
- EBITDA margin was at 17.8% (up 221 bps YoY). Effectively, EBITDA at ₹ 403 crore, was down merely by 1.5% YoY
- PAT was at ₹ 265.2 crore (up 7.2% YoY)

What should investors do? GRIL's share price has de-grown by ~24% over the past one year (from ~₹ 1,730 in July 2021 to ₹ 1,402 levels in May 2022).

- We maintain **BUY** rating on the company

Target Price and Valuation: We value GRIL at a target price of ₹ 1,690

Key triggers for future price performance:

- GRIL is likely to be one of the major recipients of thriving roads, and railways 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 ~16%
- Double-digit return ratios, and lean balance sheet position

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

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



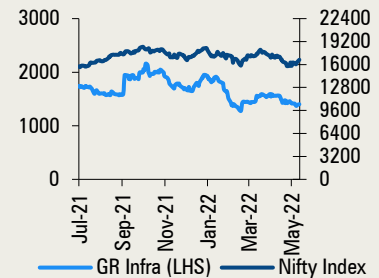
Particulars

Particular	Amount
Market Capitalization	13,555
Total Debt (₹ crore)	1,302
Cash (₹ crore)	445
EV (₹ crore)	14,412
52 week H/L (₹)	2,277 / 1,250
Equity capital	48.3
Face value	5.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	88	86.5	86.5	86.5
FII	9.9	2.9	2.6	0.3
DII	0	7.1	7.5	9.8
Others	2.1	3.5	3.4	3.4

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%	1,333.3	1,609.0	12.1%
EBITDA Margin (%)	20.6	18.1	16.2		15.9	16.1	
Net Profit	688.7	780.6	760.8	6.0%	764.0	940.1	11.2%
EPS (₹)	71.2	80.7	78.7		79.0	97.2	
P/E (x)	19.7	17.4	17.8		17.7	14.4	
Price / Book (x)	4.8	3.8	3.1		2.7	2.3	
EV/EBITDA (x)	11.1	11.0	11.3		11.0	9.2	
RoCE (%)	28.7	24.0	19.7		17.8	18.7	
RoE (%)	24.4	21.7	17.5		15.0	15.8	

Source: Company, ICICI Direct Research

Key business highlight and outlook

Overall OB at ₹ 20,210 crore; execution to pick up

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 stood 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.**

Key conference call takeaways

- MoRTH has constructed 10,457 km during FY22 (vs 13,247 km in FY21) impacted by several wave of Covid-19 and prolonged monsoon season. However, awarding has improved to 12,731 km during FY22 (vs 10,947 km in FY21). **Going forward, the ministry's target to construct 18,000 km of national highways in FY23 provides good visibility and the management expects tendering activity to pick-up considerably, going forward**
- GRIL has bid for projects valued at ~₹ 96,000 crore in the field of roads, power transmission and railways during FY22. Out of these, the company has secured 11 projects (eight roads, two metros and one power transmission) during FY22 having combined order value of ₹ 9,970 crore despite heightened competition in EPC and HAM projects from unorganized players. **Going forward, the company has guided for ₹ 15,000 crore of order inflows during FY23 largely targeting from Roads (₹ 10,000-12,000 crore), and railways and power transmission (₹ 3,000- 5,000 crore) segments. The management expects competitive intensity to decline ahead**
- GRIL has recognised one-off income amounting to ~₹ 82 crore mainly towards GST claim and various bonuses during Q4 FY22. With these, its EBITDA margin stood at an elevated level of 17.8%, 16.2% during Q4 FY22, FY22 respectively (vs 18.1% reported in FY21; despite higher contribution from EPC projects to overall revenue). **Going forward, the management has guided for 16-17% core operating margin (excluding bonuses) in FY23 to be aided by higher contribution from HAM projects and softening in commodity prices**
- GRIL has 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". **Recently, the project has received appointed date (EPC value: ₹ 370 crore) having 18 months of completion period. The management expects margin to be similar with its road EPC projects**

- GRIL expects receipts of appointed date in newly secured seven HAM and two metro projects by Q3FY22-end
- Total investment (including loans and advances) at the end of FY22 was at ~₹ 1,300 crore. **Going forward, it has total equity requirement of ₹ 2,100 crore (~₹ 700 crore each during FY23, FY24 and FY25) towards already secured HAM and power transmission projects**
- Net working capital at the end of FY22 was healthy at 72 days (receivable: 32 days; inventory + WIP: 70 days; payable: 32 days). **The company expects working capital to hover in the same range, going forward**
- GRIL has **guided for ~₹ 200-300 crore of capex during FY23** required to be spent for newer projects and jobs in newer targeting segments
- GRIL is **looking to monetise its six operational NHAI's HAM projects via InvIT 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

GRIL has built an efficient business model powered by robust execution skills and delivered strong revenue growth with elevated margins. Its outlook 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 with a TP of ₹ 1,690/share (based on SoTP based valuation). We value core business at 16x FY24 P/E (vs. 17x, earlier amid increasing interest rate scenario) 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	Q4FY22	Q4FY22E	Q4FY21	Q3FY22	YoY (%)	QoQ (%)	Comments
Total Operating Income	2,268.1	1,946.0	2,628.4	1,818.4	-13.7	24.7	Pick-up execution led to better-than-expected topline
Other Income	33.1	39.0	38.6	35.1	-14.1	-5.7	
Consumption of raw materials	1,679.7	1,467.3	2,058.2	1,366.6	-18.4	22.9	
Employee benefit expenses	156.3	159.6	120.8	148.7	29.4	5.1	
Other Expenses	29.1	31.1	40.5	48.4	-28.1	-39.8	
EBITDA	403.0	288.0	408.9	254.8	-1.5	58.1	
EBITDA Margin (%)	17.8	14.8	15.6	14.0	221 bps	375 bps	Better project mix supported margin performance
Depreciation	-61.7	-89.0	-67.8	-82.3	-8.9	-25.0	
Interest	-27.3	-37.3	-37.7	-29.7	-27.6	-8.2	
Exceptional Items	0.0	143.5	0.0	-3.1	NA	NA	
PBT	347.0	200.7	341.9	177.9	1.5	95.1	
Taxes	-81.9	-56.2	-94.7	-45.9	-13.5	78.5	
PAT	265.2	288.0	247.3	129.0	7.2	105.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21	FY22	FY23E			FY24E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	7,244.5	7,919.2	8,341.8	8,387.4	0.5	9,989.9	9,997.4	0.1	Realign estimates post Q4
EBITDA	1,310.4	1,281.1	1,315.2	1,333.3	1.4	1,610.3	1,609.0	-0.1	
EBITDA Margin (%)	18.1	16.2	15.8	15.9	13 bps	16.1	16.1	-3 bps	
PAT	780.6	760.8	726.3	764.0	5.2	920.8	940.0	2.1	
Diluted EPS (₹)	80.7	78.7	75.1	79.0	5.2	95.2	97.2	2.1	

Source: Company, ICICI Direct Research

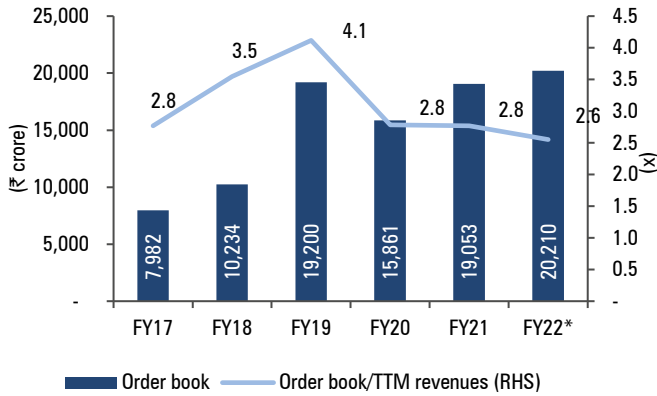
Exhibit 3: Valuation Table

Particular	Valuation method	₹/share
Standalone EPC business	16x FY24E EPS	1,556
HAM Projects	1x P/B	135
Total (Rounded off)		1,690
CMP		1,402
Potential upside (%)		21%

Source: Company, ICICI Direct Research

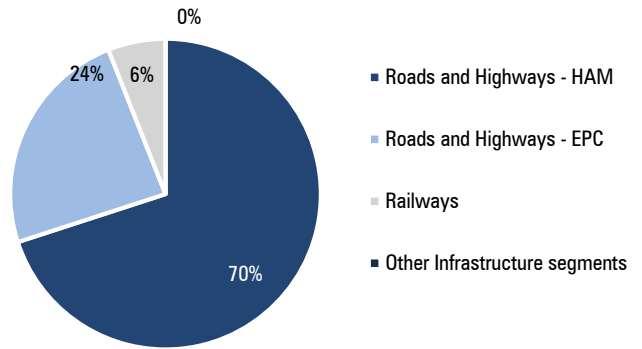
Company Analysis

Exhibit 4: Order book trend*



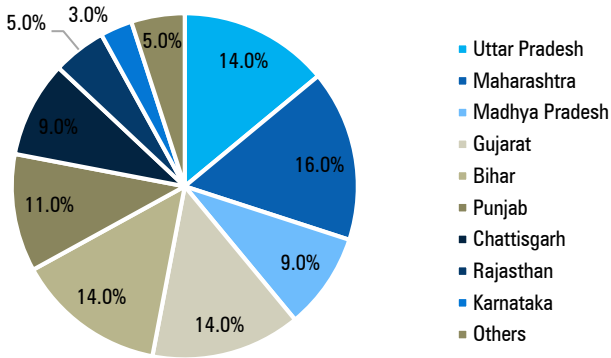
Source: Company, ICICI Direct Research; *Including L1 position

Exhibit 5: Order book composition



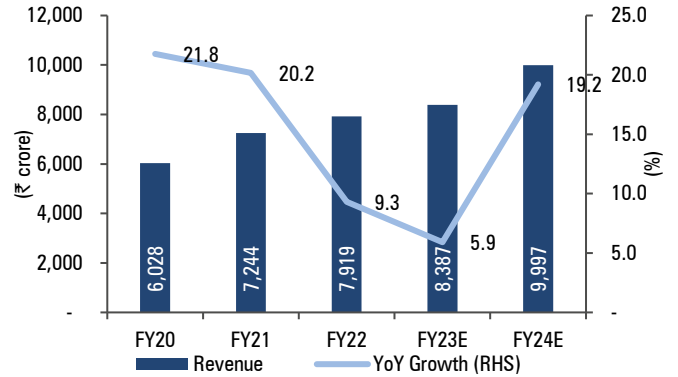
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



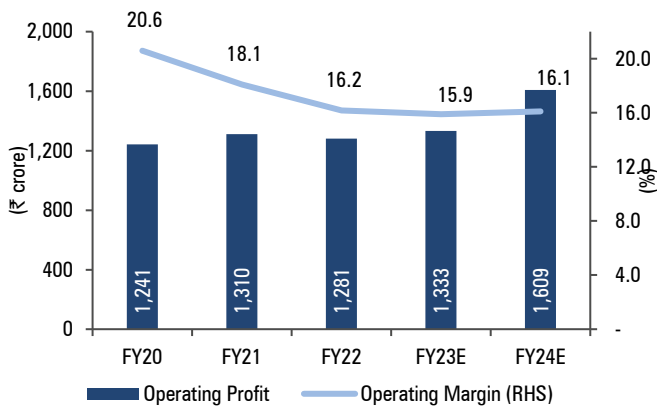
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



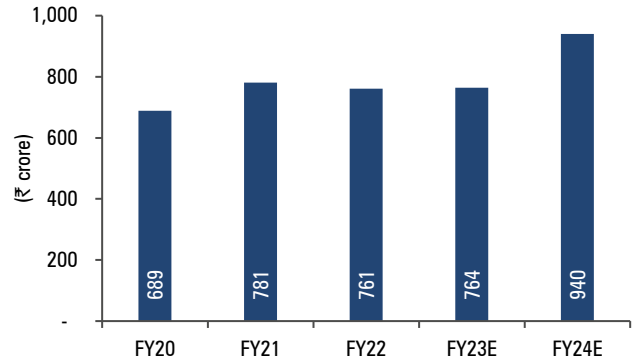
Source: Company, ICICI Direct Research

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	124.8	143.7
Total Operating Expenditure	5,934.1	6,638.1	7,054.0	8,388.4
EBITDA	1,310.4	1,281.1	1,333.3	1,609.0
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
Rep. PAT	780.6	763.9	764.0	940.1
Exceptional items				
Adj. Net Profit	780.6	763.9	764.0	940.1
Growth (%)	13.3	(2.1)	0.0	23.0
EPS (₹)	80.7	78.7	79.0	97.2

Source: Company, ICICI Direct Research

Exhibit 11: 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
Net CF from operating activities	468.5	355.1	895.6	1,050.3
Net purchase of Fixed Assets	(567.3)	(425.0)	(250.0)	(275.0)
Others	(334.4)	151.1	(665.7)	(726.1)
Net CF from Investing Activities	(901.7)	(273.9)	(915.7)	(1,001.1)
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)	(123.1)	(22.8)
Opening Cash and Cash Equivalent	840.3	541.6	445.0	321.9
Closing Cash & cash equivalents	541.4	445.0	321.9	299.1

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	5,030.9	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
Total Liabilities	5,051.7	5,741.4	6,543.3	7,571.7
Assets				
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
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	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
Total Assets	5,051.7	5,741.4	6,543.3	7,571.7

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	79.0	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
Operating Ratios (%)				
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
Return Ratios (%)				
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
Valuation Ratios (x)				
P/E	17.3	17.8	17.7	14.4
EV / EBITDA	10.9	11.2	10.9	9.2
EV / Net Sales	1.9	1.8	1.7	1.5
Price to Book Value	3.8	3.1	2.7	2.3
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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