

G R Infraprojects Limited

11th Nov 2022

Clear road of opportunities ahead

Incorporated in 1995, G R Infraprojects Ltd (GRIL) is one of the largest road developers in India. The Company bagged ~6% of the total allotted projects by the National Highways Authority of India (NHAI) in FY22. Apart from roads, GRIL is now diversifying operations in the non-road segment, which we believe is a step in the right direction. The Company has also set up an Infrastructure Investment Trust (InvIT) to monetize completed projects, giving it financial muscle to bid for new projects and keep up the growth momentum. We initiate coverage on G R Infraprojects with a BUY rating and a target price of Rs. 1,510 using the 'sum-of-the-parts' (SOTP) valuations method.

Leading player with rationalised debt and working capital requirements

GRIL is one of the largest road developers in India, with a proven track record over the last 25 years operating across 16 states. Despite growing its sales at ~23% CAGR for the last five years, GRIL has maintained a healthy balance sheet with a debt/equity ratio of 1.06x. The receivables/sales ratio for GRIL has come down significantly from 11% in FY18 and has now stabilized in the range of 5%-8% leading to improved working capital days.

De-risking operations by diversifying in non-road segments

As of Q1 FY23, road projects contribute ~94% to the Company's order book, which creates a concentration risk for the company. To mitigate this risk, GRIL is entering into infrastructure sub-segments that offer the right kind of opportunity. GRIL has started tapping segments, including railways, metros, power transmissions, and ropeways. In the mid-term, the management expects the non-road segment to contribute ~20% to the total order book, which is currently ~6%.

Asset monetization through InvIT will give muscle for future growth

GRIL has launched its InvIT, which will acquire completed projects from the Company and free up capital which will be used to bid for new projects. The Company has already received SEBI approval to list its InvIT. The InvIT will provide GRIL with a mechanism to smoothly roll out completed projects and free up its capital, thereby reducing its cost of capital and operational challenges. Rolling out projects to its InvIT will also help GRIL retain its high-margin Operations and Maintenance (O&M) business.

View & Valuation

The outstanding order book of GRIL mainly consists of Hybrid Annuity Model (HAM) projects which will push the operating profit margins higher. At the same time, near-term growth could be lower as the appointed date for most HAM projects was announced in the current fiscal. Growth is expected to come back as HAM execution improves in FY24E, along with better margins. The Ongoing CBI matter and any extension in the current 30-day disbarment order by the Ministry of Road Transport & Highways (MoRTH) and NHAI can negatively impact our thesis, the impact of which cannot be estimated. Given the current backdrop, we initiate coverage of GRIL with a BUY rating and a target price of Rs. 1,510 using the SOTP valuation method, resulting in a ~29% upside from current levels.

BUY

CMP Rs. 1,172

TARGET Rs. 1,510 (+29%)

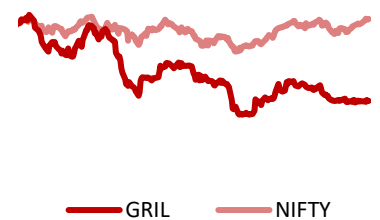
Company Data

MCAP (Rs. Mn)	1,13,319
O/S Shares (Mn)	97
52w High/Low	2,073 / 1,078
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	73

Shareholding Pattern %

	Sept 22	Jun 22	Mar 22
Promoters	79.74	86.54	86.54
FIIIs	0.63	0.23	0.27
DIIIs	15.67	9.69	9.78
Non-Institutional	3.95	3.54	3.41

GRIL vs Nifty



Nov, 21 Nov, 22

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	79,192	87,111	99,307
EBITDA	12,811	15,244	18,570
Net Profit	7,608	8,788	10,917
Total Assets	67,134	79,501	94,833
ROCE (%)	15%	15%	15%
ROE (%)	17%	17%	17%

Source: Company, Keynote Capitals Ltd.

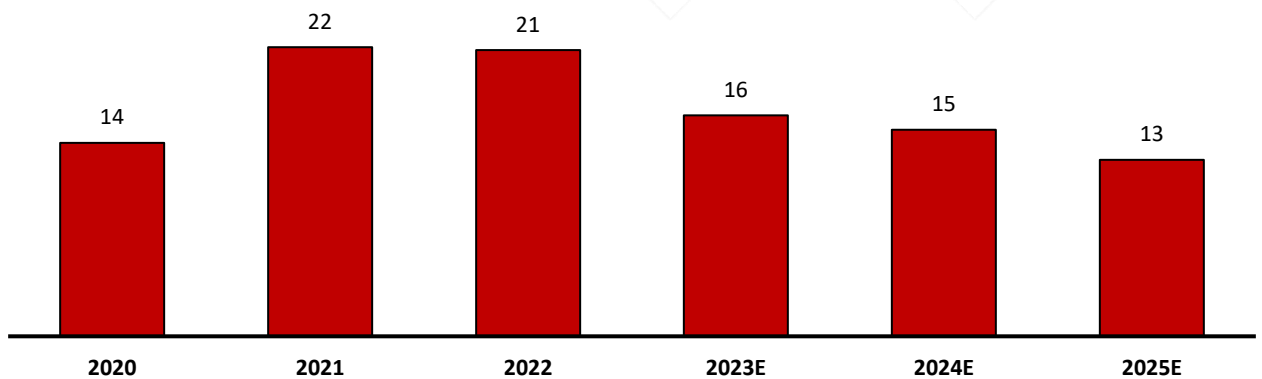
Devin Joshi, Research Analyst
Devin@keynoteindia.net

The Indian Infrastructure Sector

The infrastructure industry acts as the growth engine of the Indian economy and propels the overall development of the country. The Government of India (GOI) has prioritized investment in the infrastructure sector with annual spending of 5-7% of the GDP.

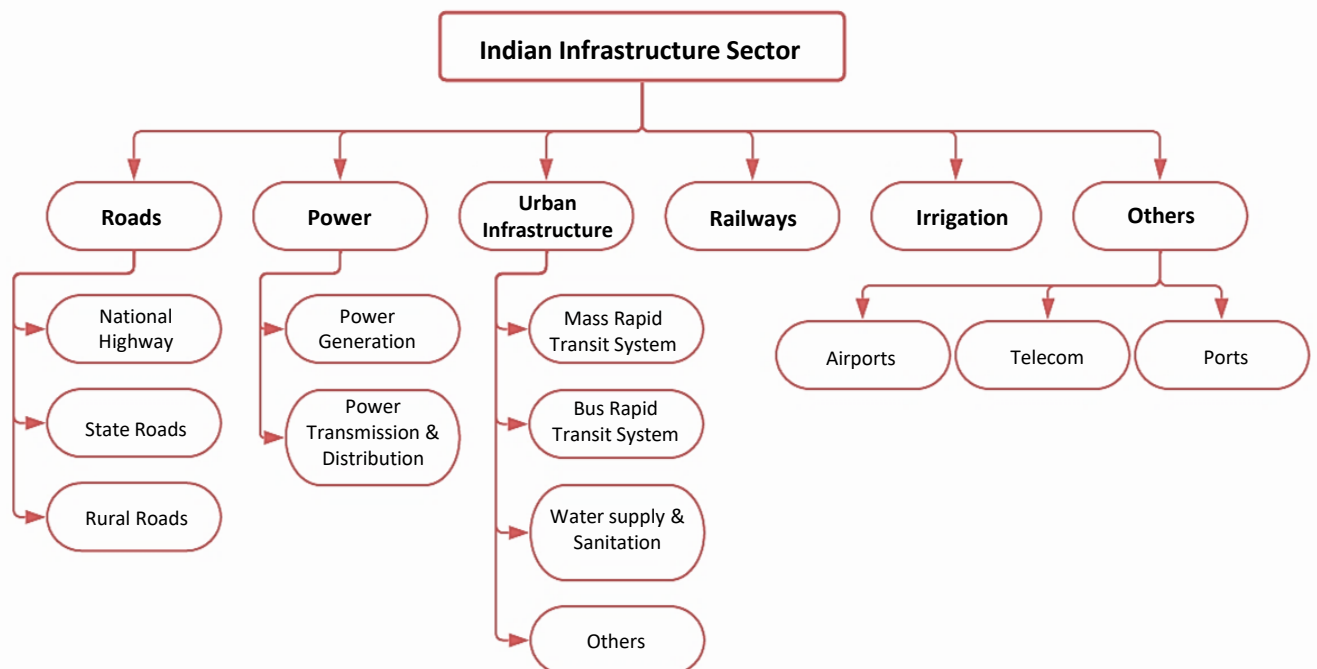
Through the National Infrastructure Pipeline (NIP), the Government of India is committed to developing world-class infrastructure in the country. This has led to job creation and improved the standard of living in India.

Year wise planned infrastructure investment by GOI (Rs Trn)



Source: NIP Task Force report, Company, Keynote Capitals Ltd.

Overview of the Indian Infrastructure sector

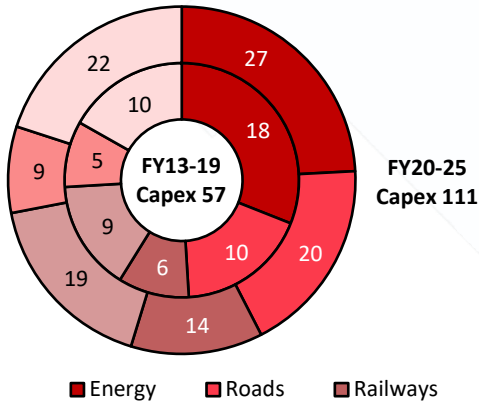


Source: Ministry of Road Transport & Highways (MoRTH), Company, Keynote Capitals Ltd.

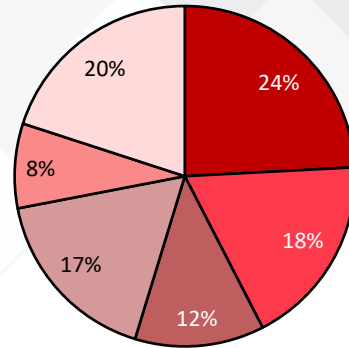
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Sector's driving infrastructure in India

Sector-wise infrastructural Capex (Rs Trn)



Percentage breakup of Capex between FY20-FY25



Note: Others include Rural infra, Social infra, Digital infra, Industrial infra, Agricultural infra, Ports, and Airports
Source: NIP Task Force report, Company, Keynote Capitals Ltd.

According to RBI and the National Institute of Public Finance and Policy, every rupee spent by the government of India on infrastructure leads to Rs. 2.5-3.5 increment in GDP.

Development opportunities in the Road Infrastructure sector

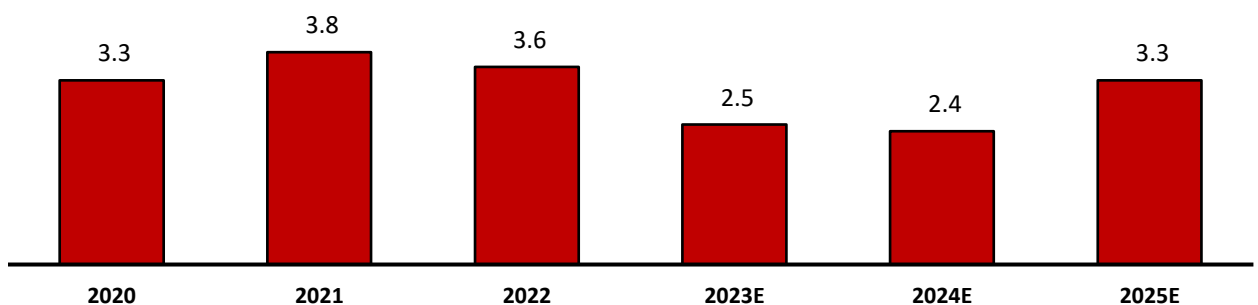
India has the second-largest road network in the world, spanning 6.5 Mn km. The country's road network can be classified as National Highways, State Highways, District Roads, Rural Roads, Urban Roads, and Project Roads.

According to MoRTH, the road is the most frequently used mode of transportation in India, accounting for ~86% of passenger traffic and ~64% of freight traffic.

National highways span ~1.41 Lac km, constituting just ~2% of the total road length but accounting for ~40% of the total road traffic. The other 98% of roads comprising state, district, and urban roads, account for the remaining 60% of total traffic in India.

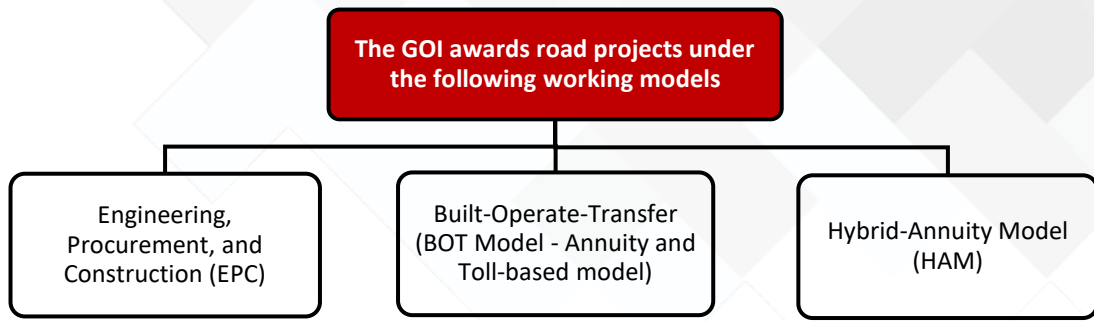
The GOI has formulated PM Gati Shakti master plan, which will focus on developing Roads, Railways, Ports, Mass Transport, Waterways, and Logistics Infrastructure. Under this plan, the GOI aims to complete 25,000 km of national highways by FY25.

Capex planned in Roads (Rs Trn)



Source: NIP Task Force report, Company, Keynote Capitals Ltd.

Allotment of road construction tenders via various models



Source, Company, Keynote Capitals Ltd.

Structure and functioning of various allotment model

Particulars	EPC	BOT Annuity	BOT Toll-based	HAM
Meaning/role of the model	Developers only carry out construction & the cost is completely borne by the government	Developers construct, operate for a specific period, and transfer back to the government against annuities	Developer constructs & operates for a specific period during which he is allowed to collect tolls and recoup costs	Combination of EPC and BOT, partially financed by government and developer in a fixed ratio
Responsibility of the developer	Designing the project as per specifications and complete the same within a specified period	Construction and maintenance of the project during the concession period	Construction and maintenance of the project during the concession period	Designing, building, financing, operating, and transferring at end
Revenue stream	Payments on either fixed milestones or based on percentage of the work done	Fixed annuity from the government over concession period	Tolls collection over the concession period, generally regulated by a governing authority	40% in ten payments during the construction period, and the rest 60% plus profits as annuities over concession period
Financing risk	By government	By developer	By developer	By developer (60%) & government (40%)
Toll collection & revenue risk	By government	By government	By developer	By government
Operation & Maintenance	By government (Generally allotted to developers)	By developer	By developer	By developer

Note: The concession period is the period starting from the appointed date and ending on the transfer date
 Source: MoRTH, NHAI, Keynote Capitals Ltd.

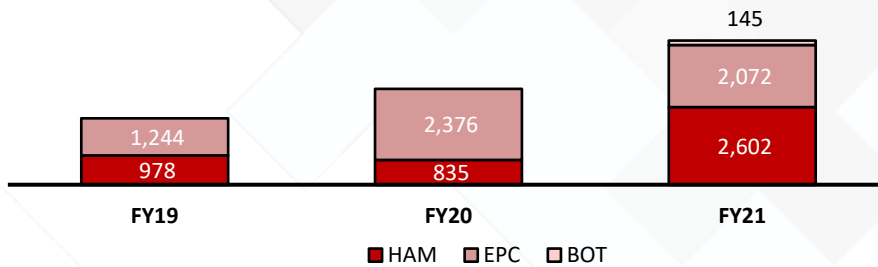
Increasing preference for the HAM model

Till 2016, the GOI awarded road projects only under the EPC and BOT models. Both these models proved financially detrimental for either of the parties involved. In the EPC model, the complete funding and collection risk is borne by the government, whereas in the BOT model, the developer bears the complete funding and collection risk. There were cases where the developer was stuck in a low-traffic project leading to poor cashflows and, eventually, loan defaults.

This was when the concept of HAM came to life. There was a need for a better financial mechanism to spread the risk between developers and the Government. The HAM model helps cut the debt, improves project returns for the developer, and removes the component of traffic risk as the developers receive fixed annuity payments from the government.

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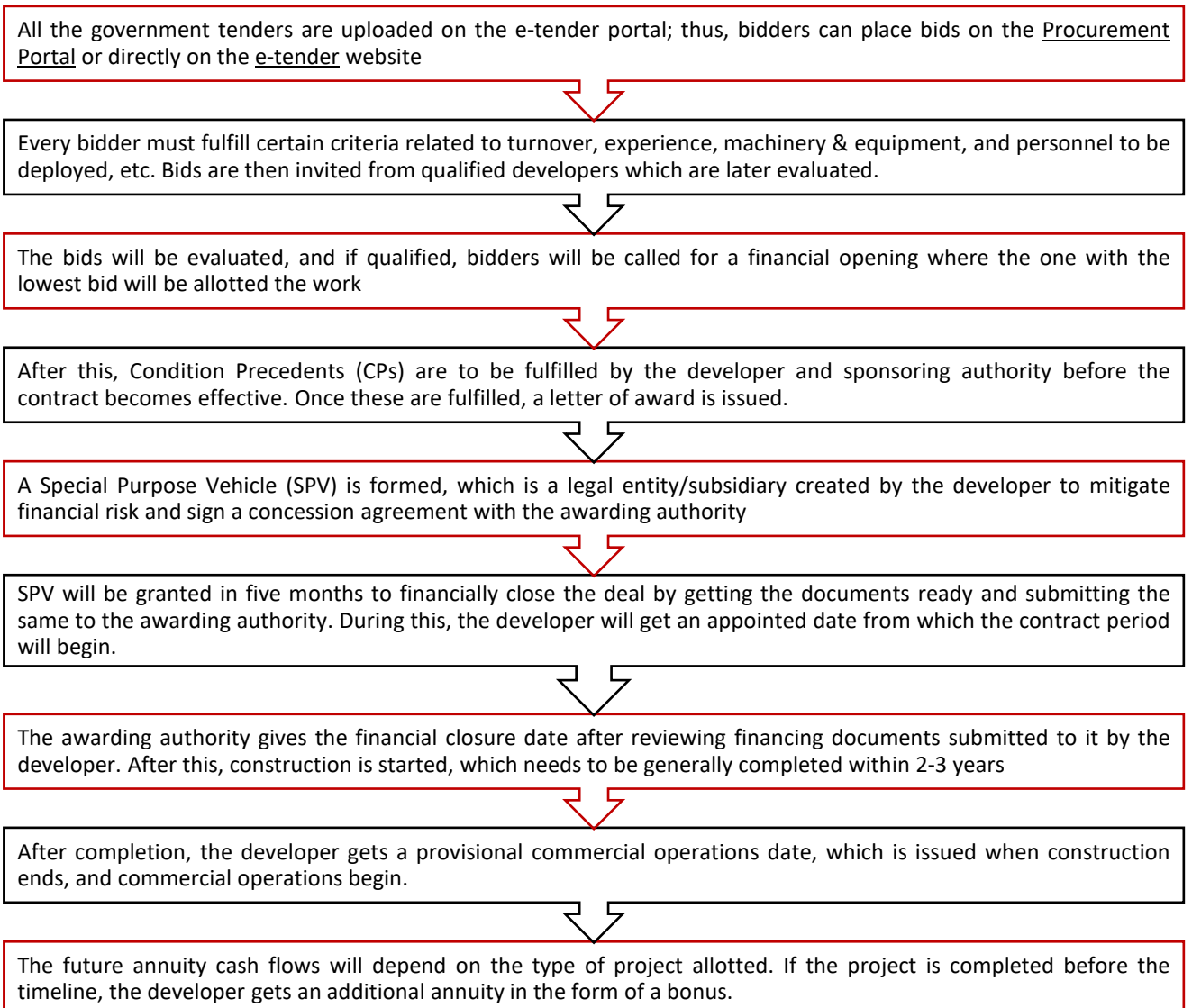
GOI's increasing focus towards HAM (Project Kms)



Source: NHAI, Keynote Capitals Ltd.

The value of HAM projects awarded jumped by 167% from FY19 to FY21, compared to a ~67% growth in EPC projects. The EPC space is becoming more crowded as the competition among players has intensified, leading to lower margins. Companies with strong balance sheets will benefit as they have the financial muscle to bid and win HAM projects, resulting in limited competition. Margins generated in HAM projects are 200-300 bps higher than EPC projects.

Project timeline for a road development project



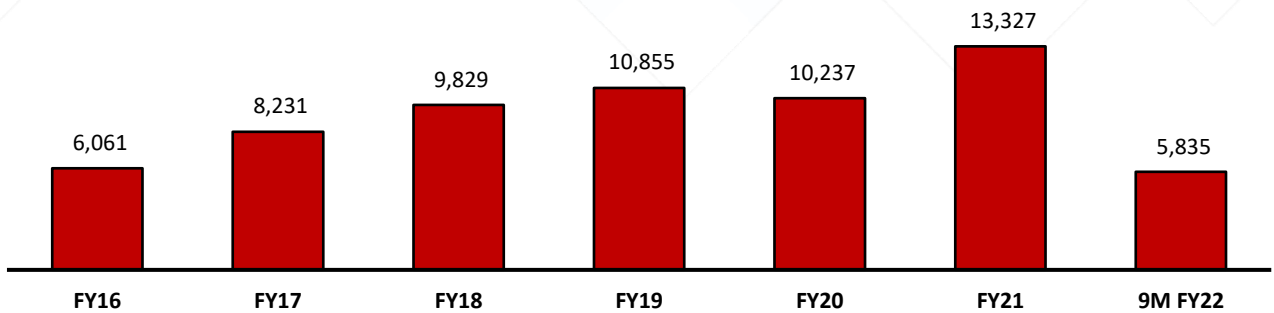
Source: MoRTH, NHAI, Keynote Capitals Ltd.

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Bharatmala Pariyojana initiative

The GOI has taken initiatives to upgrade and strengthen national highways through National Highways Development Project (NHDP). This initiative falls under the Bharatmala Pariyojana and other projects. A total of 604 (including 131 projects of NHDP) road projects aggregating ~34,800 km (~10,000 NHDP) have been approved under Phase 1 of the Bharatmala with a capital cost of ~Rs 5.4 Trn. Projects awarded will be dominated by HAM with an expected contribution of 60%, followed by EPC at 30% and BOT (Toll) at 10%.

Road construction trend (in Km)



Source: MoRTH, Company, Keynote Capitals Ltd.

Since FY16, India has seen a steady improvement in road construction, barring 2020, due to the impact of COVID. Road construction has more than doubled in FY21 compared to FY16 signifying the substantially improved efficacy of road developers in the Indian road construction industry. Phase 1 of Bharatmala Pariyojana is targeted to be completed by Q3 FY23, and the construction of roads is targeted to be completed by FY25E.

Greenfield Access Controlled Highways planned under Phase-1

Corridor name	Length (km)	Capital cost (Bn)	Target completion year
Ambala – Kotputli	313	114	FY22
Amritsar - Bhatinda - Jamnagar	917	228	FY24
Raipur - Vishakhapatnam	465	161	FY25
Hyderabad Vishakhapatnam	222	59	FY25
UER II	75	70	FY24
Chennai – Salem	277	97	FY25
Chittoor Thatchur	116	48	FY24
Bangalore Ring Road	281	143	FY25
Delhi - Saharanpur – Dehradun	329	171	FY24
Durg, Raipur Arang	92	27	FY25
Hyderabad – Raipur	330	87	FY25
Surat - Nashik - Ahmednagar – Solapur	711	282	FY25

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Corridor name	Length (km)	Capital cost (Bn)	Target completion year
Solapur - Kurnool – Chennai	335	105	FY25
Indore – Hyderabad	687	150	FY25
Kharagpur – Siliguri	235	57	FY25
Kota Indore (Garoth to Ujjain)	135	26	FY25
Nagpur – Vijayawada	405	147	FY25
Total Greenfield Access Controlled Corridors	5,925	1,972	-

Source: MoRTH, Keynote Capitals Ltd.

Greenfield Expressways planned under Phase-1

Corridor name	Length (km)	Capital cost (Bn)	Target completion year
Delhi-Mumbai Expressways	1,382	983	FY23
Ahmedabad-Dholera	109	42	FY24
Bengaluru – Chennai	262	167	FY25
Delhi-Amritsar-Katra	669	395	FY25
Kanpur-Lucknow Exp	63	42	FY25
Expressways Total	2,485	1,629	-

Greenfield Expressways in India are designed as 12-lane wide Expressways with the initial construction of 8 lanes. Land for 4-lane future expansion is reserved in the center of the expressways.

Source: MoRTH, Keynote Capitals Ltd.

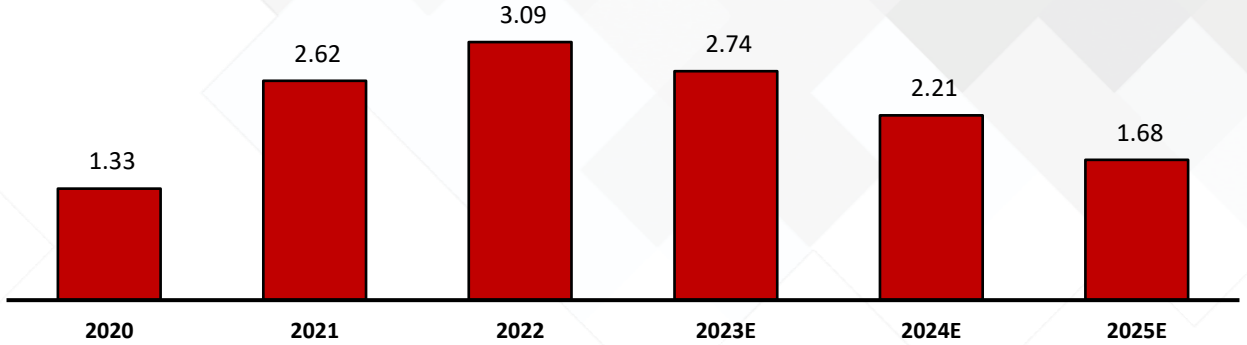
After the completion of Bharatmala Pariyojana Phase 1 in December 2022, the Union Government intends to kick off Phase 2 of the Bharatmala Pariyojana in the year 2024. Phase 2 will entail road construction of ~49,000+ km and will focus on the interconnectivity of the multi-model logistics parks, ensuring synergies with the inland waterways of India.

Development opportunities in Railways

Indian Railways, the premier transport organization of India, is the largest rail network in Asia and the second largest rail network in the world under one management. The capacity of Indian Railways is spread across 13,500 passenger trains and 8,479 freight trains, carrying 23 Mn travelers and 3 MT freight daily from 7,349 stations.

An average of 1,835 km/year of new track length has been added during 2014-2021 compared to the average of 720 km/day during 2009-14, signifying substantial improvement in execution efficiency like roads. GOI's thrust on railways has resulted in Indian Railways adopting indigenous new technology, introducing premium trains, and redeveloping stations to have a safe and better experience.

Planned capex in Indian Railways (Rs Trn)



Source: NIP Task Force report, Company, Keynote Capitals Ltd.

Besides Railways, the GOI has allocated Rs 191 Bn in the Union Budget 2022-23 for various metro projects across India. Metro rail has seen substantial growth in India in recent years, which is expected to continue as more cities get covered under the metro ambit.

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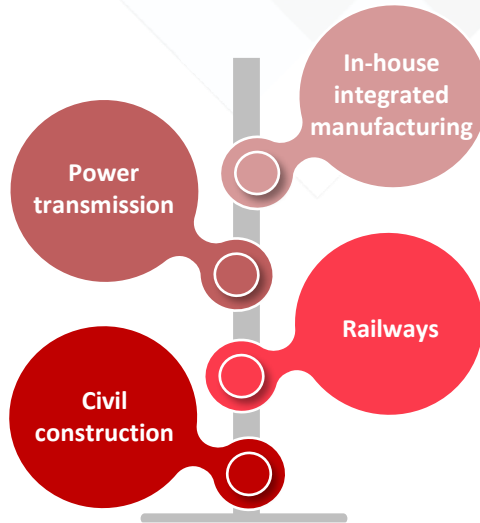
About G R Infraprojects Limited

Incorporated in 1995, G R Infraprojects Limited (GRIL) is an integrated road EPC company based out of Udaipur, primarily involved in the design and construction of state and national highways, bridges, culverts, flyovers, airport runways, rail-over bridges, and power transmission projects.

Diversification of business divisions

Designing, constructing, owning, and commissioning of transmission system for evacuation of power

Construction of roads, state & national highways, bridges, culverts, flyovers, and airport runways



Processes bitumen, manufactures thermoplastic road-marking paints, electric poles, and road signage, and fabricates metal crash barriers

Construction including earthwork, material supply, track lining, and bridges, among others, and construction of the metro rail

Source: Company, Keynote Capitals Ltd.

GRIL's journey started with the first road project executed for the Public Works Department (PWD), Rajasthan, with a project cost of ~Rs 26.5 Mn in 1997. Since then, the Company has continued to scale up the value chain and has gradually increased its execution presence across sectors. Over the last 15 years, the Company has executed more than 100 projects across 16 states and one union territory. GRIL's consistent growth in the order book is a result of the Company's focus on the timely execution of projects and its ability to bid and win new projects successfully. Apart from this, the Company also enjoys long-standing relationships with its clients.

GRIL's Clientele



Source: Company, Keynote Capitals Ltd.

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Evolution of G R Infraprojects

Received commencement certificate. Took over the business of the then-existing partnership firm M/s Gumani Ram Agarwal

2001

Established a centralized workshop with fabrication facilities at Udaipur to reduce equipment downtime

2007

1996

Forayed into the field of development of infrastructure projects

2006

Changed Company name from G R Agarwal Builders and Developers to G R Infraprojects

2015

Completed first project of HAM model awarded by NHAI

Commenced operations at the second bitumen emulsion manufacturing unit at Assam

2009

2016

Commenced operations at the fabrication and galvanization unit for metal crash barriers at Ahmedabad

2014

Commenced operations at first bitumen emulsion at Udaipur, Rajasthan

2019

Awarded first railway project

Added OHE Mast manufacturing unit at Ahmedabad, Gujarat

2021 - FY22

2018

Commenced operations at the third bitumen emulsion manufacturing unit at Sandila, Uttar Pradesh

2020

Listed on the stock exchange, awarded two metro projects, entered the power transmission, and tunnels division

Source: Company, Keynote Capitals Ltd.

Manufacturing facilities

Manufacturing plant	Location	Capacity (MT p.a.)
Emulsion facility and fabrication unit	Udaipur	30,000
Emulsion facility	Guwahati, Assam	30,000
Metal crash barrier fabrication and galvanization unit	Ahmedabad	24,000
Emulsion facility	Sandila, Uttar Pradesh	25,000

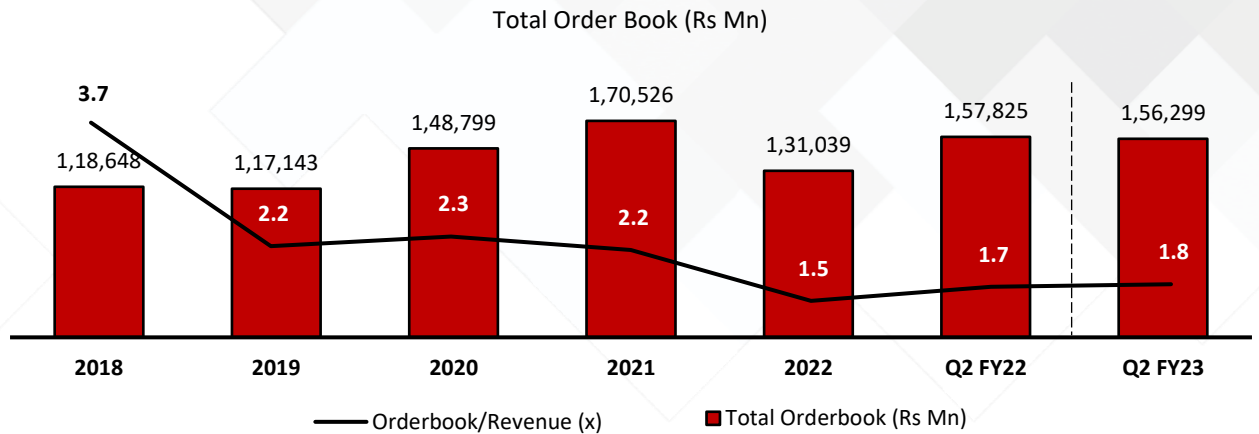
Source: Company, Keynote Capitals Ltd.

GRIL has invested in backward-integrated manufacturing facilities to support and supplement its road construction business. As part of its in-house integrated model, the Company has developed resources that include a design and engineering team, three emulsion facilities for processing bitumen, thermoplastic road-marking paint & road signage, and a fabrication and galvanization unit for manufacturing metal crash barriers and electric poles.

The backward integration initiative of GRIL is not done with the aim of increasing margins. This helps the Company to execute projects on time due to no external dependency.

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Order Book



Orderbook doesn't include the value of the L-1 project amounting to ~Rs. 5,921 Mn
 Source: Company, Keynote Capitals Ltd.

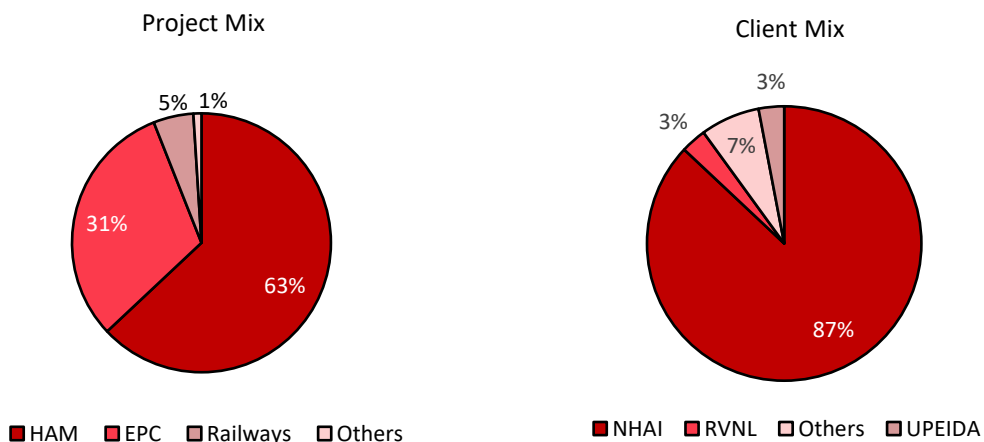
GRIL targets order book/revenue of ~2.5-3.5 as the project timelines usually are ~2.5-3 years, excluding the additional six months for mobilization. The Company generally targets to have a minimum of two years of order book with itself at any given point in time.

The Company has a total order book of ~Rs 176 Bn, including the L1 orders of Rs 6 Bn. The orders worth Rs ~70 Bn are yet to receive the appointed date from the Government; thus, Rs ~100 Bn worth of orders are under execution. During the year, the Company has been awarded ten projects with an order value of Rs ~93.5 Bn, of which eight are based on the HAM model.

The Company expects an increase in the allotment of ropeway projects because ropeway is coming through NHAI. Besides roads and highways, the Company will focus on the ropeway, hydropower, metro, railway, and bullet train projects. These projects are parallel to Highway and Railway projects, and the capabilities required are quite similar, which will help GRIL compete in the industry.

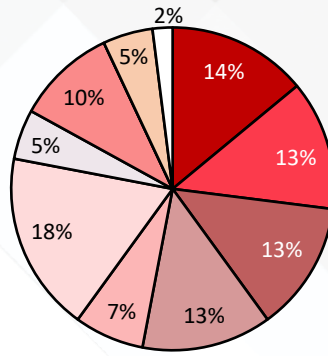
The Company has started to bid aggressively for ropeway projects. This is visible from the recent ~94 tenders awarded by NHAI, of which ~4 of them are dedicated to the ropeway.

Order Book mix as of Q2 FY23



Source: Company, Keynote Capitals Ltd.

Order Book State Mix



- Maharashtra
- Gujarat
- Madhya Pradesh
- Bihar
- Chattisgarh
- Uttar Pradesh
- Rajasthan
- Punjab
- Andhra Pradesh
- Others
- Karnataka

Source: Company, Keynote Capitals Ltd.

GRIL's order book mainly consists of HAM, which is insulated from the interest rate. This is because HAM projects are linked to the Marginal Cost of Funds based Lending Rate (MCLR) of five top banks, so if the rate increases, revenue, and costs also increase. Thus, interest rate fluctuations are squared up in the long term, but the effects can be seen in the short term.

Besides bidding and executing projects, it is imperative for road developers to release their capital which gets tied up in projects impacting the Company's ability to bid. Thus, most companies in the industry sell completed projects to investors looking for regular income. To counter this issue, GRIL has set up an InvIT.

Portfolio of HAM/Transmission projects as of Q2 FY23

Operational

- Reengus - Sikar
- Nagpur - Mukundgarh
- Phagwara - Rupnagar
- Porbandar - Dwarka
- Handia - Varanasi
- Akkalkot - Solapur
- Sangli - Solapur
- Gundugolanu - Devarapalli
- Dwarka - Devariya

Under construction

- Aligarh - Kanpur
- Ena - Kim
- Shirsad - Masvan
- Bilaspur - Uрга
- Galgalia - Bahadurganj
- Bahadurganj - Araria
- Transmission system for evacuation of power in Rajgarh*
- Ujjain - Bhadnawar
- Govindpur - Rajura

Appointed date awaited

- Amritsar Bathinda Corridor
- Ludhiana - Rupnagar
- Bandikui - Jaipur Corridor
- Anjar Bhuj
- Madanpalli - Pileru
- Madanapali - Pileru
- Bamni - MH/TG Border

Source: Company, Keynote Capitals Ltd.

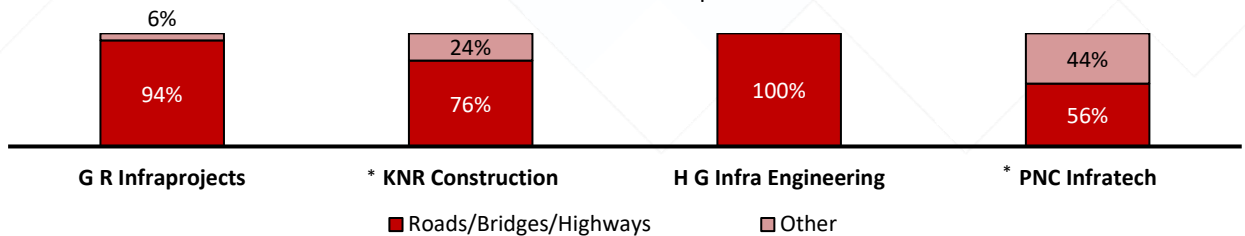
In the first quarter of any project, the revenue is generally lesser than in other quarters, as the beginning is only the earth and soil work; later, as the work progresses, the revenue increases.

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Peer Analysis (Consolidated)

There are a plethora of developers, from local road developers to large highway developers like GRIL. Each player in the industry is focused on projects within its capacity because each type of project comes with its own set of challenges related to execution, funding, and profitability. GRIL is not keen on taking on state projects. Therefore, players like KNR Construction, HG Infra Engineering, and PNC Infratech fall under the list of direct peers to GRIL. Apart from being alike in capability, road projects contribute to the bulk of their order book.

Orderbook breakup



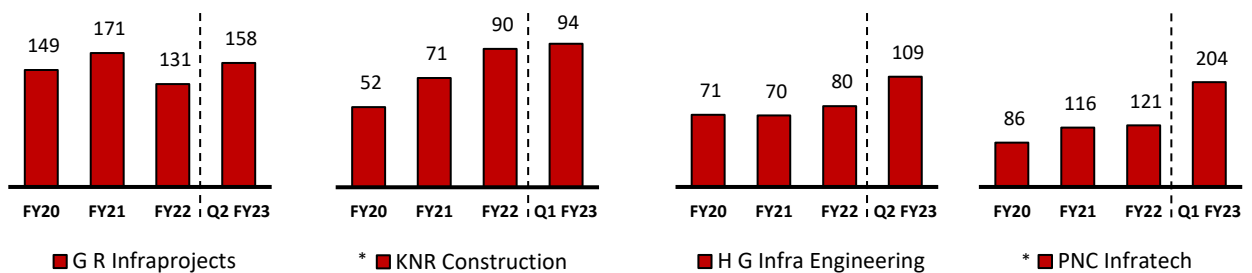
Source: Company, Keynote Capitals Ltd.

* KNR Constructions and PNC Infratech have not announced Q2 FY23 results. Therefore, Q1 FY23 numbers are taken

Company	Purview of operations
G R Infraprojects	Roads & highways, Railways & Metro, Power transmission, Tunnelling, Airport runways and Optical Fibre Cable (OFC) projects
KNR Construction	Road & Highways, Irrigation and Urban Water Infrastructure Management. Planning to enter Elevated Metro Rail and Railway Projects
H G Infra Engineering	EPC Services, Maintenance of roads, bridges, flyovers and other infrastructure contract works
PNC Infratech	Water Supply & Irrigation, Industrial Area Development, Power Transmission, Airport Runways, Dedicated Freight Corridor / Railways, Roads & Highways

Source: Company, Keynote Capitals Ltd.

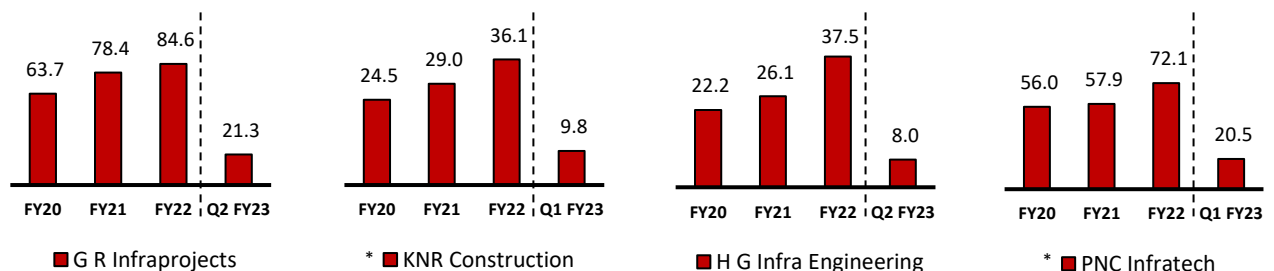
Orderbook (Rs Bn)



Source: Company, Keynote Capitals Ltd.

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Revenue (Rs Bn)

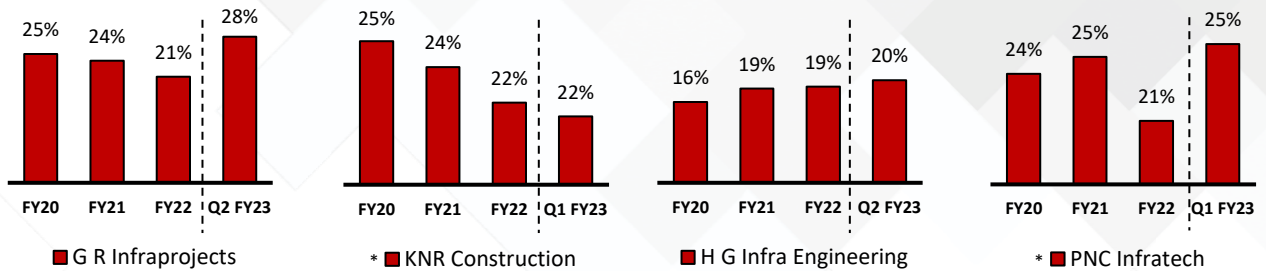


Source: Company, Keynote Capitals Ltd.

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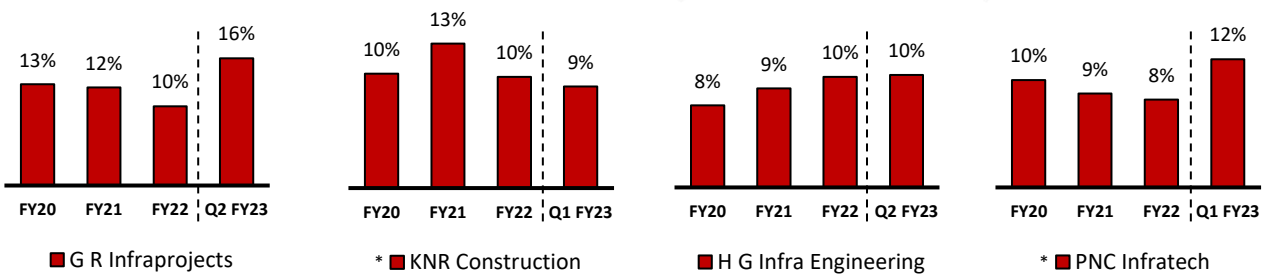
EBITDA Margins



Source: Company, Keynote Capitals Ltd.

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PAT Margins



Source: Company, Keynote Capitals Ltd.

* KNR Constructions and PNC Infratech have not announced Q2 FY23 results. Therefore, Q1 FY23 numbers are taken.

Other financial parameters

Particulars	G R Infraprojects	KNR Constructions	HG Infra	PNC Infratech
Working capital days (Standalone) 2022	72	63	31	77
Debt/Equity 2022	1.1	0.6	0.8	1.3
Current P/E multiple	11.6	18.4	9.0	9.5
Market Cap (Rs Mn)	1,17,840	64,136	34,847	67,008

Note: Market Cap and P/E multiple as of 10th November 2022

Source: Company, Keynote Capitals Ltd.

Asset monetization by peers

Company	Asset monetization status
KNR Construction	Successfully monetized three projects (KNR Tirumala Infra, KNR Shankarampet Projects, and KNR Srirangam Infra) at an average multiple of ~1.2 times of the equity invested
PNC Infratech	Monetized one project (Ghaziabad Aligarh Expressway) but had to endure some impairment loss
G R Infraprojects	Has not yet monetized any projects yet but plans to do it through InvIT

Source: Company, Keynote Capitals Ltd.

Management Analysis

Key Managerial Personnel

Name	Designation	Qualification	Experience	With Company since
Vinod Kumar Agarwal*	Chairman and WTD	HSC	42	Incorporation
Ajendra Kumar Agarwal*	Managing Director	B.E. in Civil	32	2006
Devki Nandan Agarwal*	President – Plant & Equipment	SSC	44	Incorporation
Mahendra Kumar Agarwal*	President – Procurement	BCom	37	Incorporation
Vikas Agarwal	WTD	BCom	19	2006
Pankaj Agarwal	Director – Operations	BCom	21	1998
Sunil Kumar Agarwal	Executive Director	A.M.I.E.	39	2014
Manish Gupta	Director - Operations	BCom	21	2008
Ramesh Chandra Jain	WTD	B.E. in Civil	36	2015
Anand Rathi	CFO	CA, CS, CWA	25	2011
Sudhir Mutha	CS	MBA, LLB, CA, CS	N/A	2010

* Family members (Brothers)

Source: Company, Keynote Capitals Ltd.

Board of Directors

Name	Designation	Qualification	Experience	With Company since
Vinod Kumar Agarwal	Chairman and WTD	HSC	42	Incorporation
Ajendra Kumar Agarwal	Managing Director	B.E. in Civil	32	2006
Vikas Agarwal	WTD	BCom	19	2006
Ramesh Chandra Jain	WTD	B.E. in Civil	36	2015
Chander Khamesra	Independent Director	MBA (executive)	21+ (Jewellery)	2015
Kalpana Gupta	Independent Director	NISM certificate for securities markets foundation, mutual fund distributors, & retirement adviser	34+ (Banking)	2019
Rajendra Kumar Jain	Independent Director	MCom (Business Administration), CS	17+	2021
Desh Raj Dogra	Independent Director	MS, MBA, certificated associate of the Indian Institute of Bankers	37+ (Finance)	2021
Rajan Malhotra	Independent Director	B. Tech (Mech.)	42	2022

Source: Company, Keynote Capitals Ltd.

Particulars	FY20	FY21	FY22	Q2 FY23
% Promoter Holding	85.6%	86.54%	86.54%	79.74%
Promoter Salary (Rs Mn)	710	408	401	
As a % of PAT	9.3%	4.3%	4.8%	
Senior Management Salary (Rs Mn)	132	117	127	NA
Promoter + Senior Management Salary as a % of PAT	11.0%	5.5%	6.3%	

Source: Company, Keynote Capitals Ltd.

Shareholding of the Promoter and Promoter Group in GRIL has been above the regulatory threshold. This number has started to come down as the Promoter came out with an Offer for Sale (OFS) to sell ~6.8% promoter stake in the Company from 15th September 2022 onwards. In all probability, Promoter holding in GRIL should further come down in line with regulatory requirements.

Promoter and senior-level management salaries have been within the prescribed ceiling, and thus, it is not a matter of concern.

CBI case against GR Infraprojects and its officials

On June 2022, CBI filed an FIR against GRIL and its three officials Sunil Agarwal (Executive Director), Dilip Rajput (Assistant General Manager), and Pankaj Singh (Deputy Manager), mentioning allegations of criminal conspiracy, bribing of a public servant, etc., in the context of dealings with NHAI officials about awarding of the contract, processing, and clearance of bills and release of bank guarantee. Further, CBI searched the residence of Vinod Kumar Agarwal (Chairman) and the Company's Corporate office at Gurugram. CBI also summoned the Chairman on 14th June 2022, and he duly appeared.

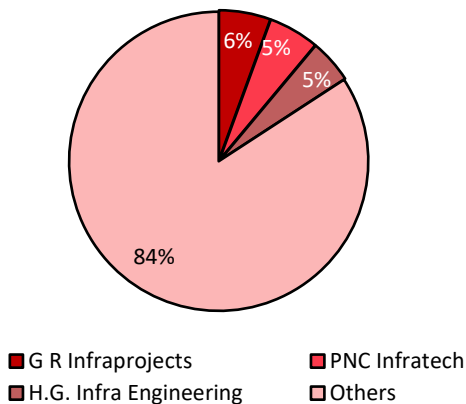
The Company has already submitted relevant information and remains supportive of the investigation. The management in the Q1 FY23 conference call clarified that GRIL is a law-abiding company, and they are confident that it will come out clean. We await further updates and clarifications on this matter.

Opportunities for GRIL

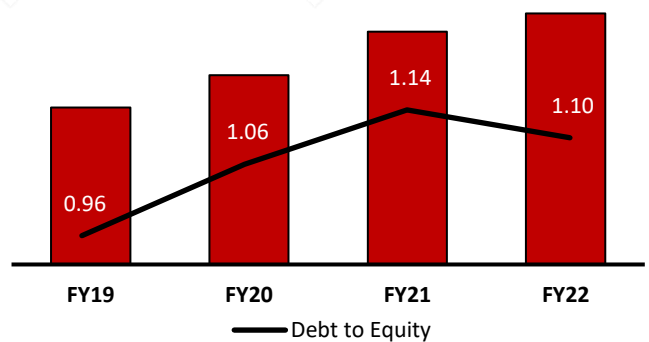
Leading player with rationalised debt and working capital requirements

GRIL is one of the largest road developers in India, with a proven track record over the last 25 years operating across 16 states. To put the scale of operations of GRIL in perspective, the Company bagged ~6% of overall projects awarded by NHAI in FY22, leading similar-sized players like PNC Infratech and HG Infra. Despite operating on such a large scale, GRIL has managed to keep its balance sheet healthy and maintain its revenue growth at a five-year CAGR of ~23%.

Share of GRIL in total NHAI Project awarded in FY22



Less dependence on external funds for growth

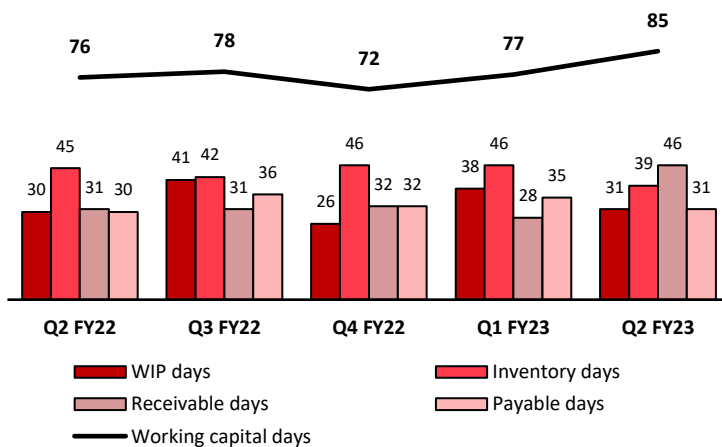


Source: NHAI, Company, Keynote Capitals Ltd.

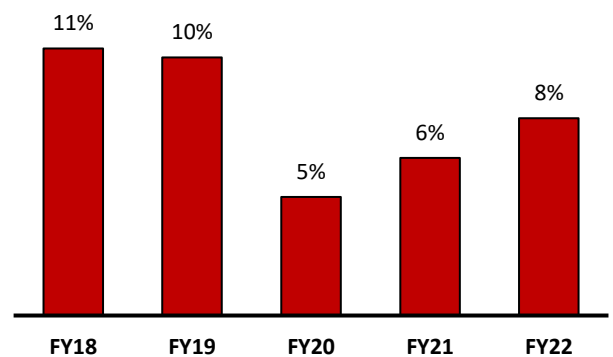
Source: Company, Keynote Capitals Ltd.

The Company manages its receivables and working capital position while achieving healthy growth. The receivables/sales ratio for GRIL has come down significantly from 11% in FY18 and has now stabilized in the 5%-8% range despite revenue growth.

Working Capital days



Receivables to Sales Ratio



Source: Company, Keynote Capitals Ltd.

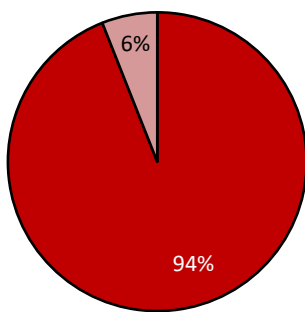
Source: Company, Keynote Capitals Ltd.

De-risking operations by diversifying in non-road segments

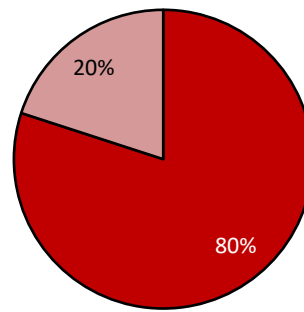
Currently, GRIL's order book is heavily concentrated on road projects. As of Q1 FY23, road projects contribute 94% to the Company's order book, which creates a concentration risk for the company. To mitigate this risk, GRIL is entering into infrastructure sub-segments that offer the right kind of opportunity and fall under the competency of the Company. Segments that the Company has started tapping include railways, metros, power transmission, and ropeways projects.

In FY23E, the Management is looking to augment efforts to change the road-heavy mix in favor of non-road projects. In FY23, the Company is targeting new orders worth Rs. 150 Bn, out of which Rs. 30-50 Bn worth of projects will come from the non-road segment. In the mid-term, the Management wants non-road projects to contribute ~20% to the total order book.

Current Orderbook mix (Q2 FY23)



Future expected orderbook mix



■ Road projects

■ Non-road projects

Source: Company, Keynote Capitals Ltd.

Power Transmission – The Management believes in synergies from this segment as power transmission is very similar to road projects in terms of required capabilities. Also, the Company benefits from its manufacturing facilities that aid carry out these EPC projects, with a comfortable 13%-15% EBITDA margin. In September, GRIL's subsidiary 'Rajgarh Transmission Ltd,' received a transmission license for 25 years from Central Electricity Regulatory Commission (CERC).

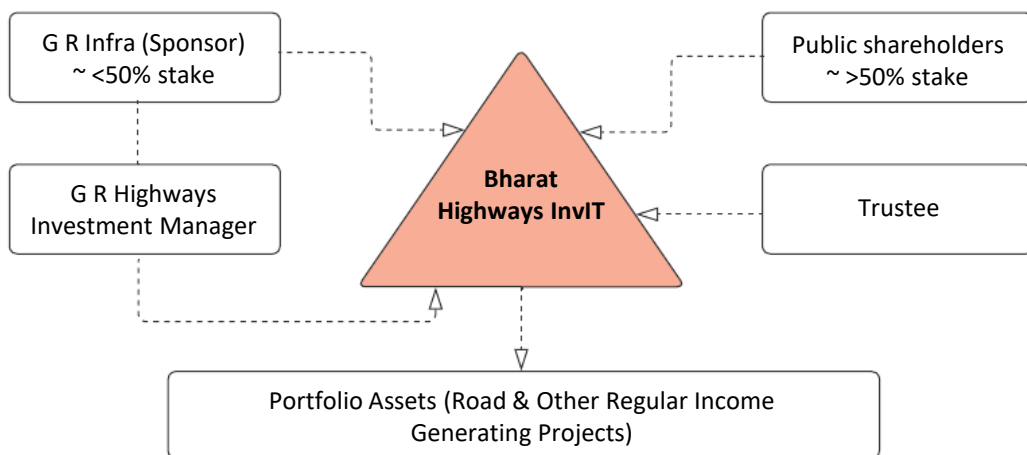
High-Speed Rail & Metro – GRIL's initial aim is to qualify and try to make a mark in this space, even if it entails taking some hit on margins. Currently, GRIL is an L1 in a metro project but has not received the sanction from authorities for one year. The Company also emerged as L2 bidder (with a small margin) in a bullet train project. GRIL will continue to build capabilities in this space and will look to earn reasonable margins until they strengthen its position in the sub-industry.

Ropeways – GRIL is keenly looking at ropeways to diversify and grow as it is an area of focus for the GOI. Bidding for one project already took place, but the Company did not bid as it did not fit the internal criteria. The Company is increasing focus about this segment as it is coming through NHAI.

Asset monetization through InvIT will give muscle for future growth

Most projects in the road sector are now awarded under the HAM model. Under this, 60% of capital invested by road developers becomes a growth limiting factor for the developer. Therefore, road developers must monetize completed projects to free up their capital and create the ability to bid for more projects and maintain growth. For this purpose, GRIL has set up an InvIT named 'Bharat Highways InvIT,' which will acquire completed projects from the Company and free up capital which will be used to bid for new projects and bring growth. The InvIT will receive regular income from the government in the form of annuities which will be distributed to its investors looking for steady income.

Structure of upcoming GRIL's InvIT



Source: Company, Keynote Capitals Ltd.

The InvIT will provide GRIL with a mechanism to smoothly roll out completed projects and free up its capital, thereby reducing its cost of capital. InvIT will add value in less negotiation and reduce search time and cost the Company might have incurred if the InvIT was not established. Apart from this, the Company will continue to get high-margin operation & maintenance (O&M). This might not be the case if the project is sold to a third party.

Currently, GRIL has eight completed projects (excluding the one for which the Company recently received a provisional completion certificate), of which the current plan is to transfer six projects and add more with time. Besides monetizing GRIL projects, the InvIT will also look at opportunities outside GRIL's purview. InvIT will have an independent management team to evaluate projects and make the best decision in the interest of unitholders.

The Company has received SEBI approval and is targeting to finish this process by the end of FY23. This will be a publicly listed InvIT. Later, over 6-12 months, GRIL aims to reduce its stake in the InvIT to less than 50%.

Challenges for GRIL

Intense Competition may hinder Order Book growth

The EPC space has always been moderate to highly competitive, given its position in the economic cycle. Given the GOI's aggressiveness on infrastructure, the competitive intensity is high. Competition in the EPC space is much higher than HAM as it has additional barriers in terms of the capital investments that the developer must fulfill which accrues 200-300 bps higher margin than EPC.

Additionally, during COVID, the GOI relaxed project bidding parameters like funding and bank guarantees to support developers, intensifying competition. In Q1 FY23, the Company bid for projects worth Rs 120 Bn, of which the result of projects worth Rs 100 Bn have been announced; surprisingly, GRIL could not bag a single project. This results from intense competition and GRIL's philosophy of not taking on projects below a minimum level of profitability.

The Company has recently diversified into Power transmission and finished one project for which it received the license. Here again, the Company will have to compete against giants like Power Grid and Adani in the power sector.

Management envisages that competition will go up but has clarified that as the industry matures, the project complexity also increases, creating opportunities for sophisticated and mature players who are unwilling to operate below a reasonable margin. Apart from this, the government has also faced challenges due to the relaxation of norms, leading to delays in financial closure and execution. COVID is now behind, so the GOI is expected to withdraw its relaxation, resulting in projects awarded at reasonable margins.

Client and Segment Concentration

GRIL derives more than 90% of its revenue and order book from road projects awarded by the government authorities like NHAI, MoRTH, etc. This exposes the Company to a significant client and segment concentration risk. Any pressure on the government or slowdown in the awarding activity of these entities could significantly impact the Company's financial performance and growth prospects.

Interest rates and raw material volatility

GRIL extensively uses raw materials, like steel, bitumen, cement, and others, to carry out its infrastructure activities. All these commodities are vulnerable to sharp fluctuations depending upon the global and domestic demand-supply scenario.

Any sharp increase in prices of these raw materials can dent the margin for GRIL. The escalation clause is mostly involved in every agreement, but a developer's escalation is based on a pre-decided index whose fluctuation may only sometimes match the actual commodity fluctuation. Also, the escalation effect comes with a lag.

Negative developments in the CBI matter or extension of disbarment

The CBI is currently investigating GRIL & its executives. Additionally, GRIL has informed exchanges that MoRTH and NHAI have debarred it from bidding for new projects for 30 days from 8th Nov 2022. Management is currently unknown about the outcome of both these matters. Any negative development on these matters can create problems for GRIL, the impact of which cannot be estimated right now.

Financial Statement Analysis (Standalone)

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	72,445	79,192	87,111	99,307	1,14,202
Growth %		9%	10%	14%	15%
Raw Material Expenses	53,857	59,308	64,462	72,494	84,510
Employee Expenses	4,548	5,864	6,098	6,753	6,852
Other Expenses	936	1,209	1,307	1,490	1,713
EBITDA	13,104	12,811	15,244	18,570	21,127
Growth %		-2%	19%	22%	14%
Margin%	18%	16%	18%	19%	19%
Depreciation	2,268	2,816	3,276	3,793	4,311
EBIT	10,835	9,994	11,969	14,777	16,817
Growth %		-8%	20%	23%	14%
Margin%	15%	13%	14%	15%	15%
Interest Paid	1,396	1,269	1,558	1,810	1,920
Other Income & exceptional	1,275	1,293	1,307	1,589	1,713
PBT	10,715	10,019	11,717	14,556	16,610
Tax	2,908	2,411	2,929	3,639	4,153
PAT	7,806	7,608	8,788	10,917	12,458
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	7,806	7,608	8,788	10,917	12,458
Growth %		-3%	16%	24%	14%
Shares (Mn)	96.7	96.7	96.7	96.7	96.7
EPS	80.7	78.7	90.9	112.9	128.8

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	5,416	4,450	12,771	20,908	28,566
Debtors	8,976	7,155	8,711	9,931	11,420
Inventory	10,584	10,218	10,959	12,324	14,367
Other Current Assets	12,127	16,672	16,551	18,868	21,698
Net Block & CWIP	13,507	14,906	16,130	16,837	17,026
Investments	2,456	3,055	3,055	3,055	3,055
Other Non-current Assets	10,512	10,677	11,324	12,910	14,846
Total Assets	63,578	67,134	79,501	94,833	1,10,979
Creditors	7,229	7,169	7,735	8,699	10,141
Borrowings	13,511	11,020	12,985	15,086	15,816
Other Liabilities	6,794	5,310	6,357	7,708	9,224
Total Liabilities	27,534	23,499	27,078	31,493	35,181
Paid-up Capital	483	483	483	483	483
Reserves & Surplus	35,561	43,152	51,940	62,857	75,314
Shareholders' Equity	36,044	43,636	52,423	63,340	75,798
Non-Controlling Interest	-	-	-	-	-
Total Equity & Liabilities	63,578	67,134	79,501	94,833	1,10,979

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	10,715	10,019	11,717	14,556	16,610
Adjustments	2,511	3,239	3,527	4,015	4,517
Change in Working Capital	-6,370	-4,969	-561	-2,588	-3,405
Total Tax Paid	-2,689	-2,651	-2,929	-3,639	-4,153
Cash flow from operating activities	4,167	5,638	11,754	12,344	13,570
Net Capital Expenditure	-5,074	-4,227	-4,500	-4,500	-4,500
Change in investments	-1,544	784	-	-	-
Interest Income	303	271	-	-	-
Net loans and other investing activities	-2,937	799	659	3	-223
Cash flow from investing activities	-9,252	-2,373	-3,841	-4,497	-4,723
Equity raised / (repaid)	-14	-	-	-	-
Debt raised / (repaid)	2,828	-2,676	1,965	2,101	730
Interest paid	-1,091	-967	-1,558	-1,810	-1,920
Other financing activities	-130	-164	-	-	-
Cash flow from financing activities	1,592	-3,807	407	290	-1,189
Net Change in cash	-3,493	-542	8,320	8,137	7,658

Valuation Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	81	79	91	113	129
Growth %		-3%	16%	24%	14%
Book Value Per Share	373	451	542	655	784
Return Ratios					
Return on Assets (%)	12%	11%	11%	12%	11%
Return on Equity (%)	22%	17%	17%	17%	16%
Return on Capital Employed (%)	16%	15%	15%	15%	15%
Turnover Ratios					
Asset Turnover (x)	1.1	1.2	1.2	1.1	1.1
Sales / Gross Block (x)	3.6	3.6	3.3	3.2	3.2
Receivable Days	45	37	33	34	34
Inventory Days	72	64	60	59	58
Payable Days	49	44	44	44	44
Working Capital Days	68	57	49	49	48
Liquidity Ratios					
Interest Coverage Ratio (x)	7.8	7.9	7.7	8.2	8.8
Total Debt to Equity	0.4	0.3	0.2	0.2	0.2
Net Debt to Equity	0.2	0.2	0.0	-0.1	-0.2
Valuation					
PE (x)	NA	19.5	16.9	13.6	11.9
Earnings Yield (%)	NA	5%	6%	7%	8%
Price to Sales (x)	NA	1.9	1.7	1.5	1.3
Price to Book (x)	NA	3.4	2.8	2.3	2.0
EV/EBITDA (x)	NA	12.1	9.7	7.7	6.4
EV/Sales (x)	NA	2.0	1.7	1.4	1.2

Source: Company, Keynote Capitals Ltd. estimates

SOTP Valuations

Particulars	FY22	FY24E
Revenue (Mn) (SA)	79,192	99,307
PAT (Mn) (SA)	7,608	10,917
PAT Margin (SA)	9.6%	11%
EPS (Rs.)	79	113
P/E (x)	-	12
Target Price (SA)	-	1,355
Per share value of SPVs	-	155
Target Price (Rs.)	-	1,510
CMP (Rs.)	-	1,172
% Upside/(Downside)	-	28.8%

"SA" = Standalone

Source: Company, Keynote Capitals Ltd. estimates

Given the current order book mix, GRIL will execute more HAM projects than EPC. This will push the margins higher, given that the Company can execute projects properly on the ground without external challenges outside the Company's control.

In our view, growth in FY23E will not be in line with historical growth because the Company got the appointed date for most HAM projects recently, which means that material execution will not take place in FY23E. After all, mobilization and basic groundwork are required in the initial six months. In FY24E, we will see mid-double-digit revenue growth with improved margins as HAM execution proceeds.

Given the above backdrop, we estimate a 10% standalone (SA) revenue growth for FY23E and 14% SA revenue growth for FY24E with improved PAT margins of 11% (FY24E EPS of Rs. 113) as better margin HAM projects execution will increase in FY24E. Giving a 12x multiple to FY24E SA EPS of Rs. 113, because of uncertainty being created by the CBI inquiry and 30 days disbarment order given by MoRTH and NHA, we arrive at a SA value per share of Rs. 1,355.

Additionally, GRIL has invested ~Rs. 15 Bn in HAM projects in the form of equity which we value at 1x book. This gives us a per-share value of Rs. 155 for SPVs.

Combining both, we arrive at a per-share value of Rs. 1,510 (1,355 SA valuation based on FY24E EPS + 155 Value of SPVs) for GR Infraprojects Ltd using the SOTP method and an upside of ~29% from current levels.

Any negative development on the ongoing CBI inquiry and extension of the disbarment period from NHA and MoRTH can negatively impact our thesis, the impact of which cannot be estimated.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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