

GR Infraprojects

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Business at attractive valuation

Summary

GR Infraprojects, a road sector contractor is coming out with an IPO to raise Rs9.6bn at an upper band of IPO pricing. IPO is largely an offer of sale by existing investors and promoter stake will be 86.5% post IPO. Order book at Rs190bn is scattered across multiple states and GR has experience of executing projects in 15 states in India. If compared with peers, GR revenue growth has been better than its peers and so is the EBITDA margin trajectory. GR's balance sheet has leverage but we understand it's not stretched at 0.4x (DER). Other parameter of balance sheet like debtors days has been lowest and ROE has been better than peers (exhibit 7 to 13). GR Infra IPO at upper band is priced at 10x FY21 standalone EPS and 8.5x FY21 consolidated EPS. Valuation is at discount to its peers who are trading at average 2 years forward valuation of 11x PER (standalone). Thus we understand, GR's IPO valuation has not priced the future growth. In the current IPO's market, where stocks are priced to perfection we find GR has left money on the table for the prospective investor. We recommend SUBSCRIBE.

Key Investment Rationale

- **Execution track record is commendable:** From a humble beginning in 1995 of executing order of few million to executing billion plus orders, GR has established itself as a key road sector contractor in India. In the last 5 years it has increased its revenue at CAGR of 47% and now boast with an order book of Rs190bn (~3x TTM revenue). GR has in-house material supply chain with own equipment and commercial vehicle which provides certainty of delivery. Execution of HAM project has enabled it to garner average EBITDA margin of 18% in the last 5 years.
- **Balance sheet has cushion for growth:** GR with standalone debt of Rs13bn has leverage of 0.4x FY21 (consolidated DER at 1.1x). This provides levers to execute HAM projects in future. GR in existing HAM project has invested Rs12bn and remaining is Rs13bn. This will be funded from internal accruals and sale of HAM assets. GR operational HAM assets are profitable and contributed 18% to consol. PAT in FY21.
- **Key risk:** Concentration of revenue is only risk that we find in the GR's business. GR business outlook is on road sector capex as company's 98% of order book is to construct road. In short to mid-term there is pipeline of road tenders by MORTH but relaxation of bidding norms is inviting competition which could impact margins.

Issuer	G R INFRAPROJECTS LIMITED.
Transaction Type	OFS of 11,508,704 Eq Shares
Issue Open / Close	July 7 th 2021 / July 9 th 2021
Type of Offering	Offer for sale from existing investor and promoter
Total Offer Size	Rs 9520-9620mn
Price Band	Rs. 828-837
Total Offer Size as % of Post Issue Capital	11.90%
Percentage of Offer Size (Allocation)	<ul style="list-style-type: none"> • QIB: 50% • NIB: 15% • Retail: 35%
Market Cap Post IPO	Rs81bn at higher price band

Share holding pattern %

	Pre-Issue	Post-Issue
Promoter	88.04	86.54
Public	11.96	13.46
Total	100%	100%

Financial Snapshot

(Rs mn)	FY19	FY20	FY21
Revenue	52,826	63,727	78,441
EBITDA	12,834	15,862	18,497
EBITDA Margin (%)	24.3	24.9	23.6
Adj.PAT	7,166	8,009	9,532
EPS (Rs)	73.9	82.6	98.3
Networth	22,297	30,272	39,802
BPS (Rs)	230	312	410
PER x	11.3	10.1	8.5
PBV x	3.6	2.7	2.0
RoE (%)	64.3	30.5	27.2
RoCE (%)	55.2	27.9	23.1

Source: RHP

About the Company:

GR Infraprojects is an road EPC company with experience in design, construction of road/highway projects and has recently diversified into projects in the railway sector. Its principal business operations are broadly divided into three categories:

- Civil construction activities
- Development of roads, highways on a BOT basis, including under annuity and HAM; and
- Manufacturing activities, under which it process bitumen, manufacture thermoplastic road-marking paint, electric poles and road signage and fabricate and galvanize metal crash barriers.

GR was incorporated in December 1995 and has gradually increased execution capabilities in terms of the size of projects. For example, its first road projects that was executed was for the Public Works Department, Rajasthan in 1997 with a Bid Project Cost of Rs26mn, whereas the project recently awarded by NHAI, i.e. Vadodara Mumbai Expressway project in the state of Maharashtra on HAM basis, it involves a bid project cost of Rs27bn. Currently it has one operational road project which has been constructed and developed on a BOT (annuity) basis and 14 road projects which have been awarded under the HAM, out of which five projects are currently operational, four projects are under construction and construction is yet to commence on five of these projects.

In House Capabilities: GR possess In-house integrated model with 4 manufacturing units in Rajasthan, Assam, UP and Gujarat for construction material, it possess 7k+ construction equipment and vehicle. It has Repair and Maintenance Workshop in Udaipur, Rajasthan and undertakes repair and maintenance of construction equipment and Vehicles. Various advantage of possessing in-house capabilities:

- Key raw material like bitumen and diesel transported from manufacturing plants and refineries to project sites for captive consumption, in vehicles owned by Company, it Reduces pilferage and adulteration.
- Equipment base enables rapid mobilization reducing project execution time. In-house materials supply chain management ensures effective management of processes and optimal maintenance of key raw material inventory.
- Project management team with the design & engineering team, ensures operational efficiencies through supervision of the manufacturing & project execution process. Multi-tiered project management system: Helps track the physical and financial progress of work.
- Dedicated tender department: In this if GR does not meet specific projects' eligibility requirement; GR forms project specific joint-ventures and consortiums with other infrastructure and construction companies

Exhibit 1: In House capabilities of GR Infraprojects

Manufacturing Facility and Location	Product (s) manufactured / fabricated	Installed Capacity (as of December 31, 2020)	Key Raw Materials Used
Emulsion facility and fabrication unit – Udaipur, Rajasthan	(i) Emulsion of different grades of PMB and VG-40 thermoplastic road marking paint (ii) Road signage (cautionary, mandatory, directional, informative, delineators) (iii) Overhead structures (gantry, cantilevers) and toll boards (iv) Toll canopy, bus shelters, etc.	30,000 MT	Manufacturing: Bitumen, Emulsifiers, solvent, SBS, and elvaloy. Fabrication: ISA, ISMC, square pipes, MS Plates, ACP sheet, retro reflective sheeting, overlay
Emulsion facility – Guwahati, Assam	Bitumen emulsion and modified bitumen	30,000 MT	Bitumen, HCL acid, calcium chloride, emulsifiers, kerosene oil
Metal crash barrier fabrication and galvanization facility – Ahmedabad, Gujarat	(i) W – shape channel (2318 MM to 5318 MM) (ii) C shape channel (330 MM to 2100 MM)	24,000 MT	Steel hot rolled coil (3MM to 5MM), zinc
Emulsion facility – Sandila, Uttar Pradesh	Emulsion of different grades – RS1, MS, SS1 & SS2	24,960 MT	Manufacturing: Bitumen, Emulsifiers, solvent, Hydrochloric Acid, and Calcium Chloride

Source: Company

Exhibit 2: Projects completed earlier than stipulated time, GR has received bonus of Rs2.8bn till date

Project	Scheduled construction period (in days)	Completed earlier than scheduled (in days)	Gross Bonus received (Rs mn)
Nagaur Mukundgarh	730	394	1196
Porbandar Dwarka	1,095	299	535
Shillong Bypass	1,095	318	432
Jowai – Ratacherra	910	46	69
Faridkote – Kotakpura	730	90	154
Hisar Dabwali 2	913	106	194
Hisar Dabwali 1	913	115	165
Phagwara Rupnagar	910	38	54

Source: Company

Exhibit 3: Top 5 completed project : Shows GR has experience of completing large projects

S. No.	Description of Project	Bid Project Cost (Rs million)	Year of Completion
1.	Construction/ up-gradation of two lane with paved shoulder of NH from Raisinghnagar – Poogal	6,870	2021
2.	Four laning of Hisar to Dabwali section of NH-10	6,480	2018
3.	Two laning with paved shoulders of Chhapra Gopalganj section of NH-85	6,442	2019
4.	Widening and strengthening of existing two-lane carriageway to four lanes with paved side shoulders of Harike – Zira – Faridkot section of NH-15	6,110	2017
5.	Widening and strengthening of existing two-lane carriageway to four lanes with paved side shoulders of Faridkot-Kotkapura-Bathinda section of NH-15	5,970	2017

Source: Company

Exhibit 4: GR's Agency wise order book break up, largely in road sector

Agency	Rs mn	As %
NHAI	165,838	87%
UPEIDA	8,287	4%
RVNL	5,576	3%
Others	9,864	5%
Private entities	695	0%
Total	190,258	100%

Source: Company

Exhibit 5: GR's State wise order book break up, spread across multiple states

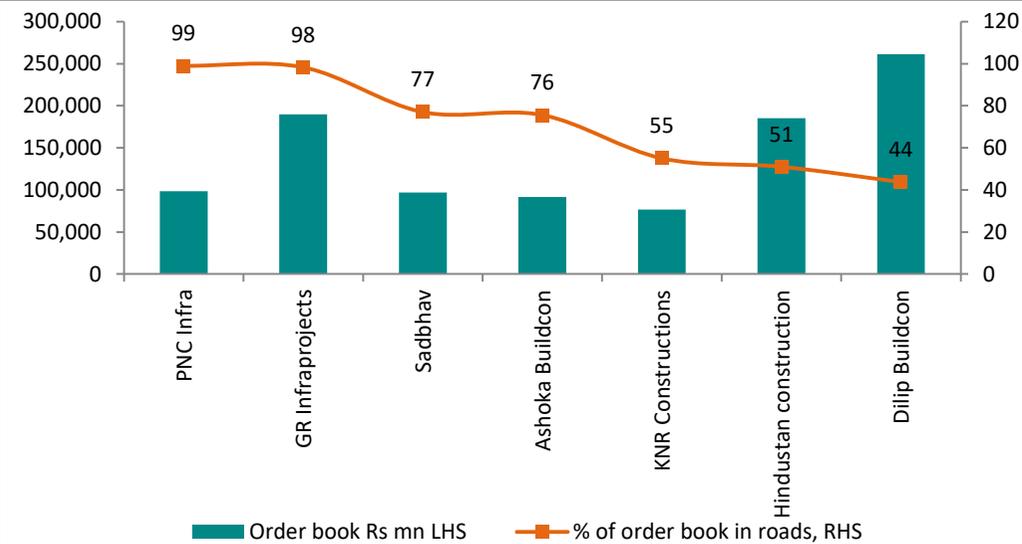
State	Rs mn	As %
Uttar Pradesh	42,848	23%
Madhya Pradesh	33,402	18%
Maharashtra	26,150	14%
Gujarat	25,314	13%
Bihar	23,393	12%
Chhattisgarh	13,070	7%
Rajasthan	10,713	6%
Others	15,368	8%
Total	190,258	108%

Exhibit 6: Top 5 on-going project: Order book spread across multiple project and is not concentrated

Name of Project	Contract Value (Rs mn)	Order Book Value (Rs mn)	Percentage of Order Book (%)
8 lane Section of Vadodara Mumbai Expressway	23,300	23,300	12.79%
4-laning of Aligarh-Kanpur section	18,630	18,630	10.22%
Eight laning of Vadodara Mumbai Expressway VI	18,370	18,370	10.08%
Eight Lane Carriageway on Mej river	10,712	10,712	5.88%
Upgradation of Highway on NH-44 at Panipat	9,270	9,136	5.01%
Total	80,282	80,149	43.99%

Source: Company

Exhibit 7: Order book profile: GR's 98% of order book is in roads sector



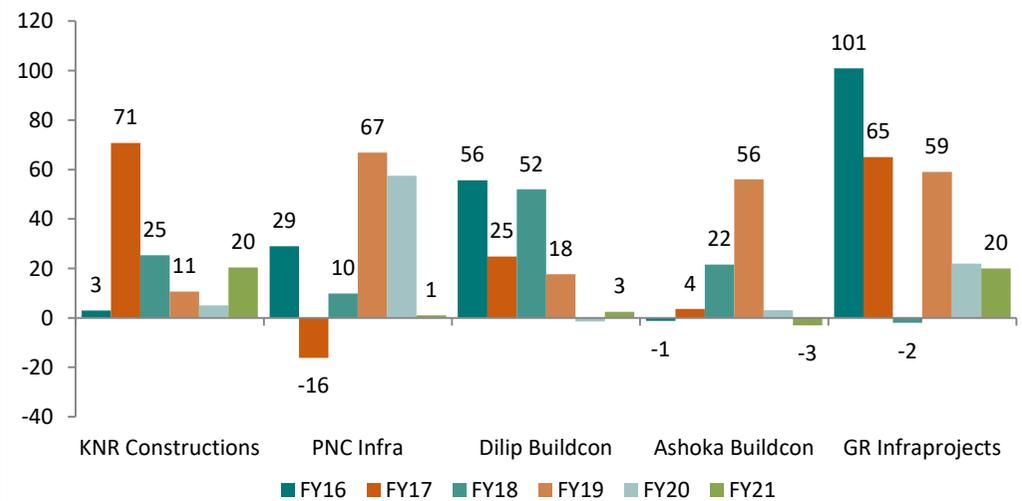
Source: Company

Exhibit 8: Order book visibility: GR has visibility of ~3 years



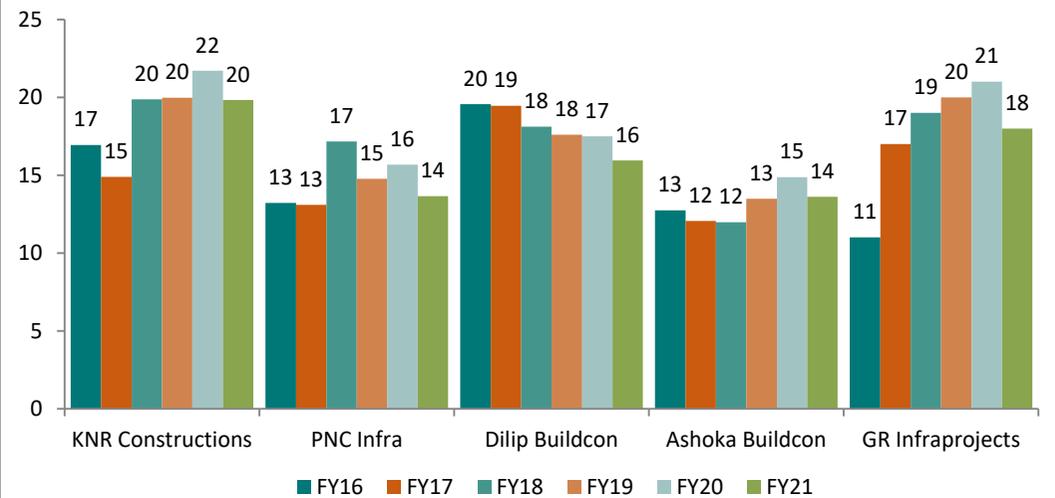
Source: Company

Exhibit 9: Revenue growth (yoy, %)



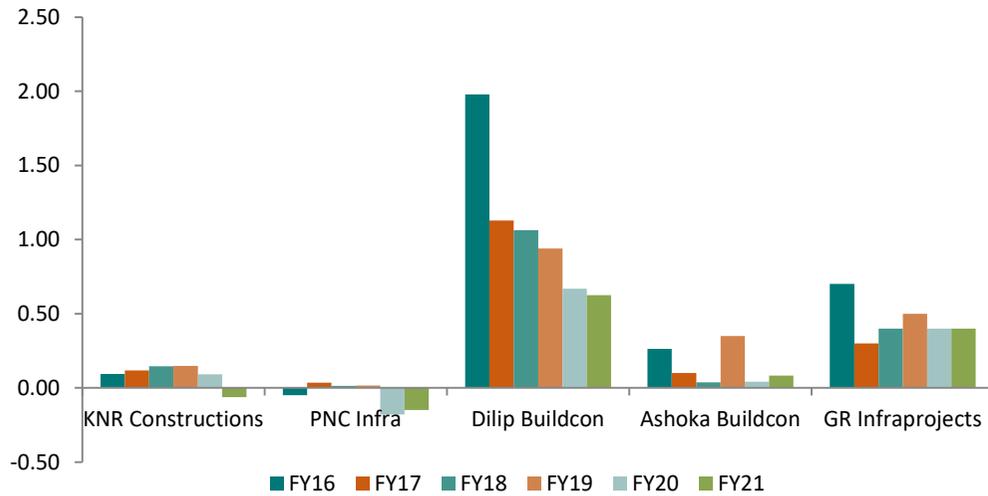
Source: Company, standalone financials

Exhibit 10: EBITDA margin : GR margin has increased in the last 5 years



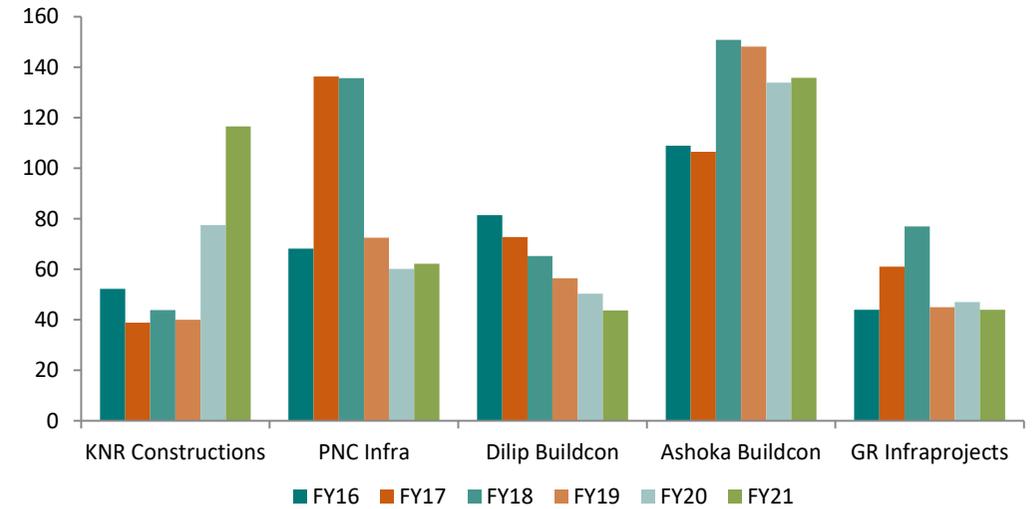
Source: Company, standalone financials

Exhibit 11: Leverage (standalone): GR at 0.4x



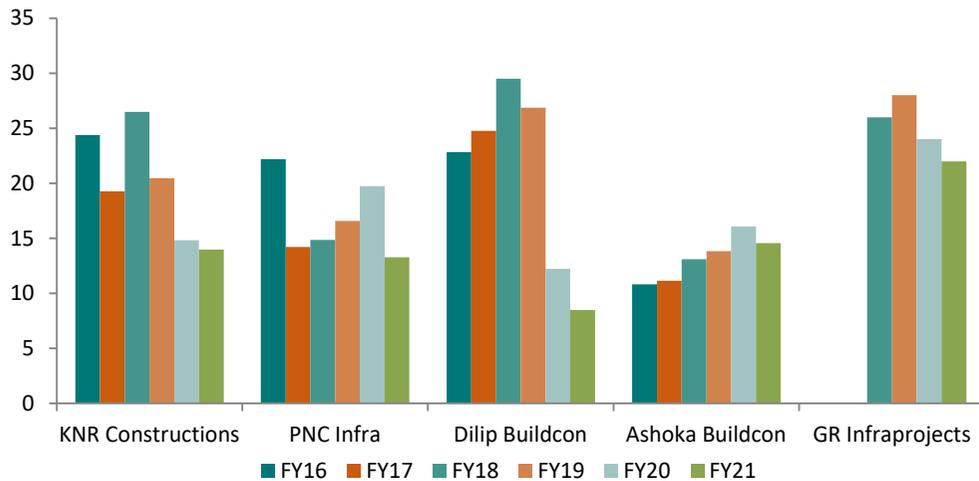
Source: Company, standalone financials

Exhibit 12: Debtors days: Lowest amongst peers for GR



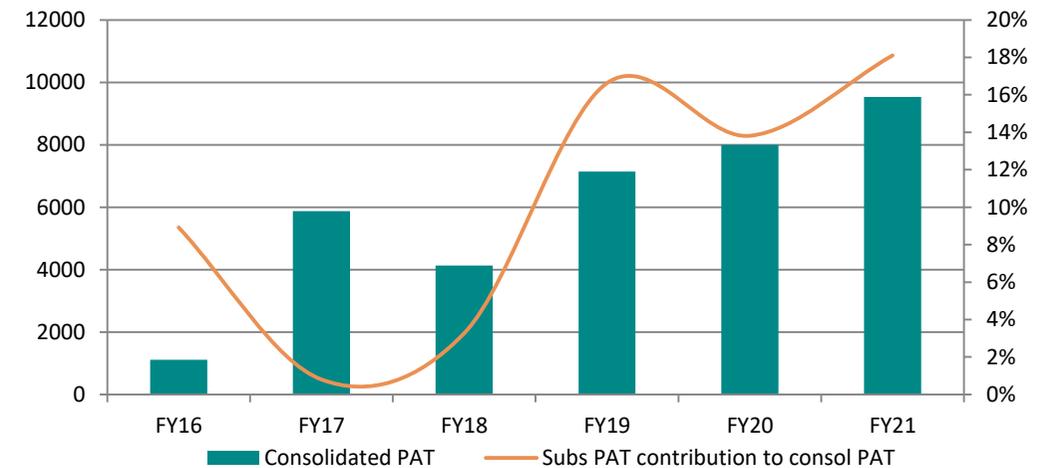
Source: Company, standalone financials

Exhibit 13: ROE trajectory: GR ROE is highest amongst peers



Source: Company, standalone financials

Exhibit 14: GR's subsidiary contribution to consolidated PAT at 18% in FY21



Source: Company

Risks and Concerns for GR business

- Concentration of revenue profile in road construction, 98% of order book is in road space.
- Commodity price increase could impact the margins.
- Post the relaxation of norms by MORTH, Competition has increased in the sector. Recent quote are lower than 20-25% versus the base price.
- Any weakness in the awarding activity by MORTH could impact the order inflow in the sector.
- Delay in the payment by the MORTH could stretch the working capital cycle.

Exhibit 15: Major events and milestones: GR is Moving with strength

1996	Received certificate for commencement of business
	Take-over of business of the then existing partnership firm M/s Gumani Ram Agarwal
2001	Forayed into the field of development of infrastructure projects
2006	Established a centralized workshop with fabrication facilities at NH 8, Balicha Bypass, Udaipur, for reducing equipment downtime
2007	Change of name of our Company to G R Infraprojects Limited as the activities being undertaken by our Company were reflected in broader terms from the new name
2009	Commenced operations at the bitumen emulsion/PMB manufacturing unit at Kaladwas in Rajasthan, having annual installed capacity of 30,000 MT
2011	Investment by India Business Excellence Fund I, India Business Excellence Fund and IDFC Investment Advisors Limited in the form of subscription to Equity Shares
2013	Completed construction of the Shillong Bypass Project, approximately 10 months prior to the scheduled date of completion
2014	Commenced operations at our Company's second bitumen emulsion manufacturing unit at Amingaon, Assam, having annual installed capacity of 30,000 MT
2015	Commenced operations at our fabrication and galvanisation unit for metal crash barriers at Ahmedabad, Gujarat having installed capacity of 24,000 MT
2016	First BOT project on hybrid annuity mode for our Company awarded by NHA with a Bid Project Cost of ₹ 13,670.00 million
2017	Sale of controlling stake in two erstwhile subsidiaries of our Company namely Jodhpur Pali Expressway Limited and Shillong Expressway Limited
2018	Awarded our Company's first railway project
2019	Commenced operations at our Company's third bitumen emulsion manufacturing unit at Sandila, Uttar Pradesh
2020	Completed first project of 4 laning road sector project

Source: Company

Exhibit 16: Directors profile		
Name	Designation	Profile
Vinod Kumar Agarwal	Chairman and Whole Time Director.	He has over 25 years of experience in the road construction industry. He looks after the strategy and policy formulation for the company and liaises with various departments of the Government and also overlooks processes in the company which includes bidding, tendering and planning.
Ajendra Kumar Agarwal	Managing Director	He has experience of over 25 years in the road construction industry. He is responsible for overseeing the overall functioning of the company, especially the operational and technical aspects, of the company. He heads the in-house design team and is actively involved in continuous value engineering using the latest specifications and methodologies. He is also the head of budgeting, planning and monitoring process.
Vikas Agarwal	Whole Time Director	He has been associated with the company since April 1, 2006 and has over 15 years of experience in the road construction industry. He is responsible for overseeing the functioning of running projects of the company, as allocated by the company's management from time to time..
Ramesh Chandra Jain	Whole Time Director	He has experience of over 27 years in the roads construction business. He joined the company on January 16, 2015 and is responsible for monitoring of construction of roads, highways and bridges. He is also responsible for the bidding process for new projects. He was previously associated with the company as senior vice president – business development.
Chander Khamesra	Non-Executive Independent Director	He has 21 years of experience in the jewellery industry.
Kalpana Gupta	Non-Executive Independent Director	She has prior experience of over 34 years in the banking sector.
Rajendra Kumar Jain	Non-Executive Independent Director	He has over 17 years of experience as a practicing company secretary.
Desh Raj Dogra	Additional Director (Non-Executive Independent Director)	He has over 37 years of experience in the financial sector, mainly in the areas of banking and credit rating.

Source: *Company*

Financial Summary - Consolidated

Profit & Loss Account		(Rsmn)		
Year-end: March	FY19	FY20	FY21	
Net sales	52,826	63,727	78,441	
Growth (%)		20.6	23.1	
Operating expenses	(39,992)	(47,865)	(59,944)	
EBITDA	12,834	15,862	18,497	
Growth (%)		23.6	16.6	
Depreciation	(1,490)	(1,885)	(2,262)	
EBIT	11,344	13,976	16,235	
Interest paid	(1,696)	(2,945)	(3,617)	
Other income	429	510	628	
Pre-tax profit	10,077	11,542	13,246	
Tax	(2,911)	(3,533)	(3,714)	
Effective tax rate (%)	28.9	30.6	28.0	
Net profit	7,166	8,009	9,532	
Exceptional items	-	-	-	
Reported net profit	7,166	8,009	9,532	
Growth (%)		11.8	19.0	
Shares o/s (mn nos)	97	97	97	

Balance Sheet		(Rsmn)		
Year-end: March	FY19	FY20	FY21	
Net fixed assets	9,728	10,569	13,998	
Investments	4,315	16,179	32,162	
Other non-curr assets	7,851	10,351	12,844	
Current assets	36,393	40,734	42,157	
Inventories	6,137	7,687	10,584	
Sundry Debtors	5,427	3,013	5,080	
Cash and Bank	1,939	5,513	2,297	
Marketable Securi.	5,219	3,967	6,011	
Loans and advances	371	505	567	
Total assets	58,287	77,834	1,01,161	
Shareholders' funds	22,297	30,272	39,802	
Share capital	485	485	485	
Reserves & surplus	21,812	29,787	39,317	
Total Debt	18,597	27,684	38,706	
Secured loans	16,057	27,372	35,825	
Unsecured loans	2,540	312	2,881	
Other liabilities	229	1,139	2,778	
Curr Liab & prov	17,165	18,740	19,875	
Current liabilities	17,017	18,514	19,563	
Provisions	148	226	312	
Total liabilities	35,990	47,563	61,359	
Total equity & liabilities	58,287	77,834	1,01,161	
Book Value (Rs)	230	312	410	

Source: Company; IDBI Capital Research



Notes

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BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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