

GR Infraprojects Ltd.

Recommendation	Subscribe	
Price Band	Rs. 828– Rs. 837	
Bidding Date	7 - 9 July	
Book Running Lead Manager	SBI Caps, I Sec, Kotak, Equirus, MOSL, HDFC Bank	
Registrar	K-Fintech	
Sector	Construction – Roads	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	17	
Minimum Application Money	Rs. 14,229	
Discount to retail	No Discount	
Payment Mode	ASBA	
Standalone Financials (Rs Cr)	FY20	FY21
Total Income	6028	7244
EBITDA	1241	1310
PAT	689	781
Valuations (FY21)	At upper band	
Market Cap (Rs Cr)	8093	
EPS	80.7	
P/E Ratio	8.7	
EV/ EBITDA	5.8	
Enterprise Value (Rs Cr)	8902	
Post Issue Shareholding Pattern		
Promoters	86.5%	
Institutions	7.4%	
Bodies Corporates & Public	6.1%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50%	
Non-Institutional Investors	15%	
Retail	35%	
Post Issue Equity (Rs. in cr)	48.34	
Issue Size (Rs in cr)	962	
Face Value (Rs)	5	
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BACKGROUND

Incorporated in 1995, GR Infraprojects is an integrated road engineering, procurement and construction (EPC) company with experience in design and construction of various road / highway projects across 15 states in India. It primarily operates in the road EPC as well as HAM spheres. Over the last 25 years, GR has constructed more than 100 projects and has built its experience in constructing state and national highways, bridges, culverts, flyovers, airport runways, tunnels and rail over-bridges.

Details of the Issue

The public issue consists of offer for sale worth Rs. 962 Cr constituting the promoters (Rs. 121 Cr), Private Equity arms of Motilal Oswal (Rs. 801 Cr) and other shareholders (Rs. 40 Cr)

Investment Rationale:

- Robust execution track record.
- Strong order book provides earnings visibility; Wide geographical presence.
- Strong sector tailwind for Roads and Highways.
- Strong financial performance; Superior operating metrics compared to peers.

Valuation and Recommendation

Over the years, the company successfully transformed from being a sub contractor to a prime contractor. Over the last five years (FY16-21), GR has demonstrated good execution skills with revenues growing at 31% CAGR, one of the highest in the listed space. GR also commands above average ROCE of 24% (four year avg. of 28%), while the order book/sales is in line with industry peers at 2.6x (Rs. 19,026 Cr) which offers strong growth visibility for coming years. On the valuation front, at the given upper price band of Rs. 837, GR Infraprojects appears attractive at P/E of 8.7x its FY21 EPS and EV / EBITDA of 5.8x its FYFY21 EBITDA. **We recommend subscribing to the issue.**

(Figures in Rs Cr)

Financial Snapshot (Standalone)	FY18	FY19	FY20	FY21
Revenues	3105	4950	6028	7244
Growth		59%	22%	20%
EBIDTA	565	1007	1241	1310
EBITDA Margins	18.2%	20.4%	20.6%	18.1%
PAT	393	596	689	781
Growth		52%	16%	13%
EPS	40.6	61.6	71.2	80.7
ROCE	25%	31%	29%	24%
ROE	26%	28%	24%	22%
EV/EBIDTA	12.7	7.0	5.7	5.8
P/E	17.3	11.4	9.9	8.7
P/BV	2.3	1.6	1.2	1.0

Source: Company data, NB Research

GR Infraprojects Ltd.

Company Background

GR Infraprojects is an integrated road engineering, procurement and construction (EPC) company with experience in design and construction of various road/highway projects across 15 states in India and has recently diversified into projects in the railway sector as well. Its business operations are broadly divided into three categories: (i) civil construction activities, under which it provide EPC services; (ii) development of roads, highways on a Build Operate Transfer (BOT) basis and mainly under Hybrid Annuity Model (HAM); and (iii) manufacturing activities, under which GR processes bitumen, manufactures thermoplastic road-marking paint, electric poles and road signage and fabricates and galvanizes metal crash barriers.

GR was incorporated in 1995 and has gradually increased its execution capabilities in terms of the size of projects. As on the date GR has one operational road project which has been constructed and developed by it on a BOT (annuity) basis and 14 road projects which have been awarded under 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. GR has extensive experience in constructing state and national highways, bridges, culverts, flyovers, airport runways, tunnels and rail over-bridges.

Investment Rationale

Robust execution track record

With an experience of over 25 years and more than 100 road construction projects executed, GR has developed an established track record of efficient project management and execution experience, involving trained and skilled manpower, efficient deployment of equipment and an in-house integrated model.

As part of its in-house integrated model, GR has developed inhouse resources with key competencies to deliver a project from conceptualization to completion that includes its design and engineering team, three manufacturing units at Udaipur, Rajasthan, Guwahati, Assam and Sandila, Uttar Pradesh for processing bitumen, thermoplastic road-marking paint and road signage and a fabrication and galvanization unit at Ahmedabad, Gujarat for manufacturing metal crash barriers and electric poles. In addition, as of March 31, 2021, its equipment base comprised over 7,000 construction equipment and vehicles. The inhouse integrated model reduces dependence on third party suppliers for key raw materials, construction equipment and other products and services required in the development and construction of projects. The in-house integrated model and efficient project execution capabilities has enabled GR to execute projects in a timely manner.

In the last three years, all projects were completed prior to or by the scheduled timelines. In addition, in FY21, FY20, and FY19, of the total projects completed by GR, 50%, 50% and 80% of such projects were completed before the scheduled completion date. GR has received total early completion bonus of Rs. 280 Cr till date. We believe that GR's track record of successfully completing complex projects in a timely manner has allowed it to grow its revenue at a CAGR of 31% over FY16-21.

Strong order book provides earnings visibility; Wide geographical presence

As of March 31, 2021, GR had an order book of Rs. 19,026 Cr comprising of 16 EPC projects, 10 HAM projects and three other projects. This order book translates to order book / sales of 2.6x which provides strong growth visibility over the next couple of years. State wise order book works are as follows: UP (23%), MP (18%), Maharashtra (14%), Gujarat (13%), Bihar (12%) and others (20%). This derisks the company from vagaries of any one particular state.

GR Infraprojects Ltd.

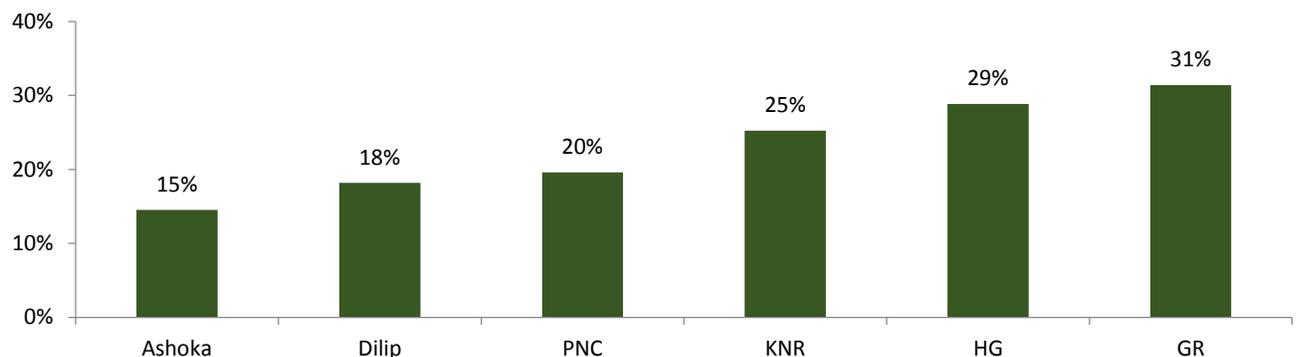
Strong sector tailwind for Roads and Highways

Spending on road construction, which is estimated to have risen 11% in FY20, is forecast to increase 1.6 times over FY21-25 compared with FY16-20, due to the government's focus on roads, and state and national highways driven by public funds. Under HAM, 40% of the total construction cost is paid by the government during the construction period. Private players are struggling to infuse funds in BOT toll projects because of their highly leveraged balance sheets and the overhang of languishing projects awarded between FY10-13. However, HAM was instrumental in attracting substantial private funds. Introduced by the end of FY16, HAM constituted nearly 20% of the total length awarded by NHA in FY20. As execution and subsequent monetization of these projects picks up, private investments are expected to increase.

Strong financial performance

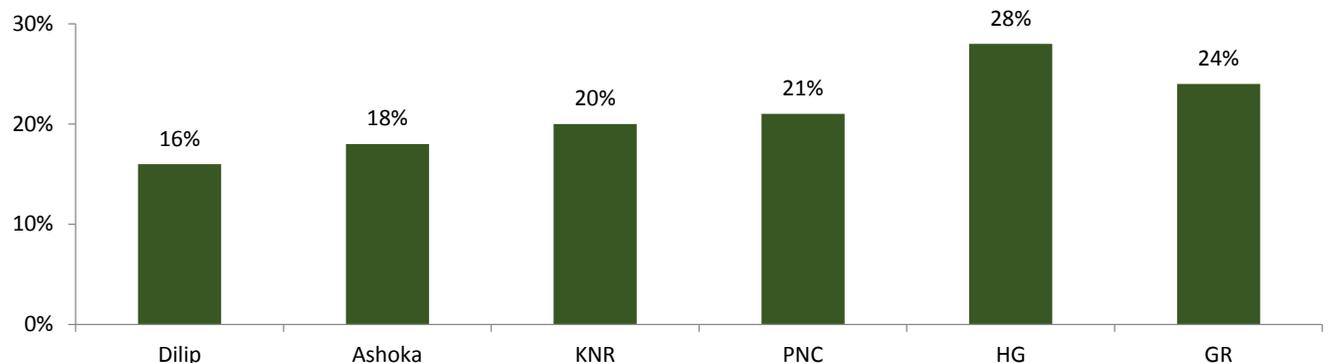
The significant growth of business in the last three years has contributed significantly to the financial strength. Standalone revenue from operations increased from Rs. 4950 Cr in FY19 to Rs. 7244 Cr in FY21 at a CAGR of 21% while profits increased from Rs. 596 Cr in FY19 to Rs. 781 Cr in FY21 at a CAGR of 14%. In addition, among the key EPC Players, GR saw the fastest growth in revenue over a period of 5 years from FY16-21 at a CAGR of 21%.

Five year revenue CAGR (FY16-21)



Source: RHP

GR has above average return on capital employed (ROCE)



Source: RHP

GR Infraprojects Ltd.

Concerns

Dependence on roads; lack of diversification: GR is majorly dependent on roads for its business as opposed to other infra companies which are also diversified into irrigation, railways, power transmission, building construction and other such areas. Any slowdown in capex by the government in roads sector will have a direct bearing on the company and impact its financials.

Political risk & geographical concentration: In the event of a change in government at the centre, the development focus on roads and highways as witnessed subsequent to 2014, stands a risk of getting diluted. Ad hoc cancellation of orders already awarded by certain states (eg: A.P) in the past has had an impact on infra companies operating in that particular state. GR is better placed on this front as its presence is diversified across states with UP constituting the maximum at 23% followed by M.P. (18%), Maharashtra (14%), Gujarat (13%), Bihar (12%) and others (20%).

Business is subject to seasonal and other fluctuations: The business and operations may be affected by seasonal factors such as heavy or sustained rainfalls or other extreme weather conditions such as cyclones could result in delays or disruptions to operations during the critical periods of the projects and cause severe damages to premises and equipment. Any such fluctuations may adversely affect the company.

Valuation and Recommendation

We have compared GR Infraprojects to companies with dominant presence in roads and highways. We have used standalone financials for the peer group in order to have a like to like comparison as most of them also have exposure to BOT & HAM projects. Valuations (P/E) for all companies are arrived at after adjusting for the investments made by them in BOT/HAM projects at book value (i.e. 1x of investments made).

Peer Comparison (FY21)

Figures as on FY21	KNR	HG	PNC	Ashoka Buildcon	Dilip Buildcon	Average	GR Inra
Sales	2703	2528	4925	3818	9209	4637	7244
D/E	0.0	0.2	0.1	0.1	0.7	0.2	0.4
W.Cap. Cycle (Days)	115	37	66	142	135	99	134
Total Asset Turns	1.4	2.0	1.6	1.1	1.4	1.5	1.1
EBITDA Margins	19.9%	16.3%	13.7%	13.6%	16.0%	15.9%	18.1%
ROCE	20%	28%	21%	18%	16%	21%	24%
Op. Cash Flow (pre tax) / EBITDA (past 4 year average)	84%	87%	97%	96%	72%	87%	65%
OB / Sales	2.6	2.8	2.4	2.1	3.0	2.6	2.6
EPS	8.7	32.4	14.1	14.5	23.4		80.7
PE (adj. for invst. In HAM)	25.5	11.2	18.5	6.9	19.9	16.4	8.7

Source: Company Data, Nirmal Bang Research

Over the years, GR company successfully transformed from being a sub contractor to a prime contractor. Over the last five years (FY16-21), GR has demonstrated good execution skills with revenues growing at 31% CAGR, one of the highest in the listed space. GR also commands above average ROCE of 24% (past 4 year avg. of 28%), while the order book/sales is in line with industry peers at 2.6x (Rs. 19,026 Cr) which offers strong growth visibility in coming years. On the valuation front, at the given upper price band of Rs. 837, GR Infraprojects appears attractive at P/E of 8.7x its FY21 EPS and EV / EBITDA of 5.8x its FYFY21 EBITDA. **We recommend subscribing to the issue.**

GR Infraprojects Ltd.

Financials (Standalone)

P&L (Rs. Cr)	FY18	FY19	FY20	FY21
Net Revenue	3105	4950	6028	7244
% Growth		59%	22%	20%
Raw Materials	2319	3533	4270	5384
% of Revenues	75%	71%	71%	74%
Employee Cost	180	347	447	455
% of Revenues	5.8%	7.0%	7.4%	6.3%
Other expenses	41	63	70	95
% of Revenues	1.3%	1.3%	1.2%	1.3%
EBITDA	565	1007	1241	1310
EBITDA Margin	18.2%	20.4%	20.6%	18.1%
Depreciation	81	138	187	227
Other Income	52	67	94	127
Interest	63	106	145	140
PBT	473	831	1003	1071
Tax	80	235	314	291
Tax rate	17%	28%	31%	27%
PAT	393	596	689	781
% Growth		52%	16%	13%
EPS (Post Issue)	40.6	61.6	71.2	80.7

Ratios & Others	FY18	FY19	FY20	FY21
EBITDA Margin (%)	18.2%	20.4%	20.6%	18.1%
PAT Margin (%)	12.6%	12.0%	11.4%	10.8%
ROE (%)	26%	28%	24%	22%
ROCE (%)	25%	31%	29%	24%

Turnover Ratios	FY18	FY19	FY20	FY21
Debtors Days	77	65	50	44
Inventory Days	35	45	47	53
Creditor Days	41	38	34	37
Asset Turnover (x)	1.1	1.1	1.2	1.1

Valuation Ratios	FY18	FY19	FY20	FY21
Price/Earnings (x)	17.3	11.4	9.9	8.7
EV/EBITDA (x)	12.7	7.0	5.7	5.8
EV/Sales (x)	2.3	1.4	1.2	1.0
Price/BV (x)	2.3	1.6	1.2	1.0

Balance Sheet (Rs. Cr)	FY18	FY19	FY20	FY21
Share Capital	48	48	48	48
Reserve & Surplus	1,489	2,092	2,779	3,556
Networth	1,538	2,140	2,827	3,604
Total Loans	615	839	1,074	1,351
Other non-curr liab.	-	-	91	88
Trade payable	347	519	557	728
Other Current Liab	443	986	642	586
Total Equity & Liab.	2,943	4,484	5,191	6,358
Fixed Assets & CWIP	663	946	1,060	1,401
Investments	229	257	255	364
Deff Tax Assets	128	69	-	-
Current tax assets	39	49	42	20
Inventories	299	614	768	1,058
Other non Curr. assets	289	477	697	1,072
Cash	27	46	513	266
Bank	210	560	327	275
Debtors	656	878	822	868
Other Current assets	404	589	706	1,034
Total Assets	2,943	4,484	5,191	6,358

Cash Flow (Rs. Cr)	FY18	FY19	FY20	FY21
EBITDA	565	1,007	1,241	1,310
Provisions & Others	24	11	64	15
Op. profit before WC	589	1,018	1,306	1,326
Change in WC	(469)	(181)	(299)	(609)
Less: Tax	(124)	(186)	(175)	(269)
CF from operations	(4)	652	831	447
Addition to assets	(282)	(655)	(284)	(507)
(Purchase)/Sale of invs	(363)	(281)	(112)	(419)
Interest Received	13	30	76	101
CF from Investing	(632)	(906)	(319)	(826)
Proceeds	280	512	564	785
Repayment	(104)	(166)	(442)	(519)
Interest Paid	(50)	(72)	(167)	(134)
CF from Financing	126	273	(45)	132
Net Change in cash	(510)	19	467	(247)
Cash at beginning	537	27	46	513
Cash at end	27	46	513	266

Source: Company Data, NBRR; *Valuation Ratios are adjusted for investments in HAM

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