

GR Infraprojects Ltd

Attractive valuations; Strong fundamentals; Minor growth concerns

INDIA | INFRASTRUCTURE | IPO Note

2 July 2021

GR Infraprojects has filed the RHP for its upcoming IPO. It is looking to list as a mid-cap construction company, focussed on the roads segment. Its FY21 revenue was Rs 72.5bn, with EBITDA margins of 18%. It has an orderbook of Rs 190bn – a decent 2.6x book-to-sales – well diversified across the country (Uttar Pradesh 23%, Madhya Pradesh 18%, Maharashtra 14%, Gujarat 13%), but concentrated in the roads segment at 97%. The company has a debt of Rs 13.5bn at the standalone level – a comfortable 0.4x debt:equity. It owns one operational BOT road project and 14 HAM projects, of which five are operational.

GR Infra has a strong execution track record, a robust orderbook, and a strong balance sheet. Its internal accruals should be enough to meet the equity requirements of its existing HAM portfolio. However, we are slightly concerned about its medium-term growth potential, given its size and dependence on a single segment (roads). Nonetheless, the IPO appears attractively priced. Assuming 15% growth in FY22/23 and lower margins, we expect the company to report a PAT of Rs 9bn in FY23, which values its EPC business at 7x FY23 P/E at the upper price band of Rs 837 (Rs 81bn Mcap) – in line with most peers, which are all trading at significant discounts to their historical average (14x) due to the ongoing pandemic. We find the risk-reward profile attractive for GR Infra and recommend SUBSCRIBE.

Strong orderbook and revenue growth profile: Over the last two decades, GR Infra has transformed itself from a small regional player to a pan-India EPC company. Its FY21 orderbook was Rs 190bn, spread across 15 states; it has recently diversified into railway sector. Its orderbook book-to-bill ratio is 2.6x, largely in line with other listed construction companies. Its revenue has seen strong 33% CAGR in the last three years (much higher than listed peers), primarily driven by strong order intake and expansion in new geographies.

As GR Infra grows, its growth sustainability will be tested: The construction space is highly fragmented with lots of small players, but NO company has been able to cross the Rs 100bn revenue hurdle in the last few decades. The reason is that most EPC companies start as regional players, with their businesses restricted to 1-2 segment/geographies, but as they grow and become larger, they need to expand their businesses outside their comfort zones to new geographies and segments.

Ditto for GR Infra, which has hitherto been a single-segment company. To grow on a topline base of Rs 72bn, it will need to win orders of Rs 100-120bn every year, which we believe is an arduous task in the highly competitive roads segment. Substituting roads with any other segment will be extremely difficult, as that would lead to higher capital requirement or margin dilution, both of which are earnings dilutive.

Strong balance sheet and a large HAM portfolio: GR Infra has a strong balance sheet with a leverage of 0.4x and tight control over working capital (debtor/inventory/NWC days of 44/53/136). Its asset turnover is strong at 3.6x. It generates strong OCF/FCF, and should therefore be able to fund the equity requirement of its large HAM portfolio (14 projects) through internal accruals. So far, GR Infra has invested Rs 13bn equity into these HAM projects – leaving Rs 12bn to be invested over the next three years.

IPO at attractive valuations; recommend SUBSCRIBE: At the upper price band of Rs 837, GR Infra is seeking a market cap of Rs 81bn. Adjusting this for Rs 25bn of equity to be invested in HAM projects (valued at a conservative 0.7x P/BV) – it seeks a valuation of Rs 64bn for its EPC business, which translates into 7x FY23 PE (assuming 15% revenue CAGR and 18% EBITDA margins over FY22-23) – in line with most peers, which are all trading at significant discounts to their historical average (15x) due to the ongoing pandemic. We find the risk-reward profile attractive for GR Infra and recommend SUBSCRIBE.

SUBSCRIBE

COMPANY DATA

ISSUE OPENS	7 th July 2021
ISSUE CLOSES	9 th July 2021
OFFER FOR SALE	11.51 mn
PRICE BAND	Rs 828-837
ISSUE SIZE	Rs 9.6bn
MKT CAP	Rs 81bn

*Issue size and Mkt Cap at Upper price band

KEY FINANCIALS

Rs mn	FY19	FY20	FY21
Net Sales	49,502	60,278	72,445
EBIDTA	10,074	12,413	13,104
Net Profit	5,957	6,888	7,806
EPS, Rs	61.4	71.0	80.5
PER, x	13.6	11.8	10.4
EV/EBIDTA, x	8.5	6.7	6.8
PBV, x	3.8	2.9	2.3
ROE, %	32.4	27.7	24.3
Debt/Equity (x)	0.5	0.4	0.4

*Valuation ratios at Upper price band

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About the IPO – 100% offer for sale

- The issue: Offer for sale of 11.5mn shares (11.9% of equity share capital).
- The proceeds of the offer for sale will be received by the selling shareholder only; GR Infra will not receive any proceeds.
- Primary objective: To provide exit/liquidity to the company's existing shareholders. Also listing to enhance the visibility and brand of the company.

Promoter's stake will come down from 100% to 88% post IPO

In mn	Pre IPO-Shares	Holding	Post IPO-shares	Holding
Promoter	96.7	100%	85.2	88%
Public	0	0%	11.5	12%
Total	96.7	100%	96.7	100%

Source: RHP, Company, PhillipCapital India Research

Company Background

- G R Infraprojects is an integrated road EPC company with experience in design and construction of various road/highway projects across 14 states in India.
- In addition, it owns 1 operational BOT road project and 14 HAM road projects, out of which 5 are operational.
- Their primary business operations are broadly divided into three categories: (i) civil construction activities, providing EPC services; (ii) development of roads and highways on a BOT basis; and (iii) manufacturing activities, processing bitumen, manufacturing thermoplastic road-marking paint and road signage and fabricating and galvanizing metal crash barriers.
- The company has an orderbook of Rs 190bn – a decent 2.6x book-to-sales. The orderbook is well diversified across the country (UP 23%, MP 18%, Maharashtra 14%, Gujarat 13%) – but is concentrated in the roads segment (97%).
- GR Infra reported a topline of Rs 72.5bn in FY21 – growing by 20% in a pandemic impacted year. The topline has seen 33% CAGR over the last three years.
- It operates at one of the highest EBITDA margins in the industry (average 19% over FY17-21). This led to higher PAT margins (12% average over FY17-21) and superior ROEs (28%).
- It has a debt of Rs 13.5bn at the standalone level (Rs 45bn at the consolidated level) – a comfortable 0.4x debt:equity
- GR maintains tight control over its working capital cycle, with inventory/debtor/net WC cycle of 44/53/136 days.
- The company has a well-integrated business model, with a strong fleet of owned +7,000 construction equipment & vehicles, and four manufacturing units for construction of materials. With a gross block of Rs 20bn – the company is able to deliver a handsome asset turn of 3.6x.

Key parameters

GR Infra – Key financial parameters

Orderbook (Current, Rs mn)	1,90,258	Standalone Debt (FY21, Rs mn)	13,511
Book-to-sales (current)	2.6	Leverage (FY21)	0.4
Sales (FY21, Rs mn)	72,445	Interest coverage	6.3
% yoy	20.2%	Debtor days	44
% CAGR (last 3 years)	33%	Inventory days	53
EBITDA Margins	18.1%	NWC days	136
Last 3 year avg	19.4%	Gross block (FY21, Rs mn)	19,999
PAT (FY21, Rs mn)	7,806	Asset turnover	3.6
% yoy	13.3%	ROE	24.3
% CAGR (last 3 years)	25%	ROCE	19.8

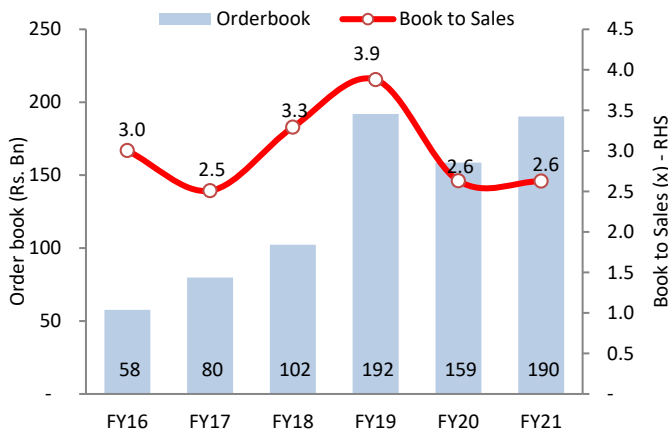
Source: RHP, Company, PhillipCapital India Research

Orderbook Analysis

Over the last two decades, GR Infra has transformed itself from a small regional player to a pan-India EPC company, which has come a long way with its recent win of a mega project (Vadodara Mumbai Expressway project package XIII) worth Rs 27.5bn vs. its first road project worth just Rs 26.5mn in 1997.

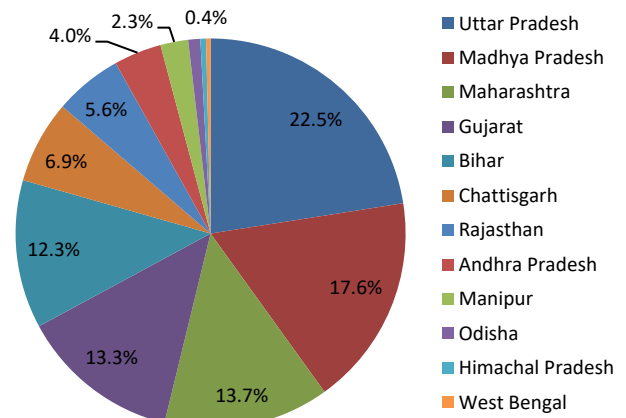
Its current orderbook (at FY21) stands at Rs 190bn, a threefold rise vs. FY16, when the orderbook stood at Rs 58bn. It has a presence in 15 states in India and has recently diversified into projects in the railways sector. It was awarded Rs 5.9bn package for developing a section of the Delhi-Alwar RRTS corridor ([link](#)).

GR Infra's orderbook is decent at 2.6x book-to-sales



Source: RHP, Company, PhillipCapital India Research

.... And is well diversified across the country



GR Infra – Top 5 projects in the orderbook

S.No.	Project name	Total Contract Value (mn)	Order Book Value (mn)	Percentage of Order Book (%)
1.	Vadodara Mumbai Expressway (Pkg XIII)	23,300	23,300	12.3%
2.	Aligarh-Kanpur (Package-IV from Naviganj - Mitrasen)	18,630	18,574	9.8%
3.	Vadodara Mumbai Expressway (Pkg VI)	18,370	18,370	9.7%
4.	Bilaspur Uрга (Pkg 1)	13,070	13,070	6.9%
5.	Delhi - Vadodara Green Field (Pkg 12)	10,713	10,713	5.6%
Total		84,083	84,027	44.17%

Source: RHP, Company, PhillipCapital India Research

GR Infra's orderbook stand well in comparison to peers

Companies (4QFY21)	Orderbook (bn)	Books-to-Bill
GR Infraprojects	190.3	2.6
Sadbhav Engg*	96.8	6.0
Ashoka Buildcon	101.2	2.7
PNC Infratech	166.2	3.4
KNR Const	114.4	4.2
Dilip Buildcon	274.1	3.0
HG Infra	59.7	2.8

Source: PhillipCapital India Research (*Last updated for Q3FY21 – high due to lower turnover)

GR Infra's orderbook stands at a book-to-bill ratio of 2.6x, largely in line with its other listed road construction companies. However, this is one of our concerns with the company – being focussed only on the roads segment (97% of orderbook), to keep growing, it will have to keep winning large orders in a segment that is facing high competitive intensity.

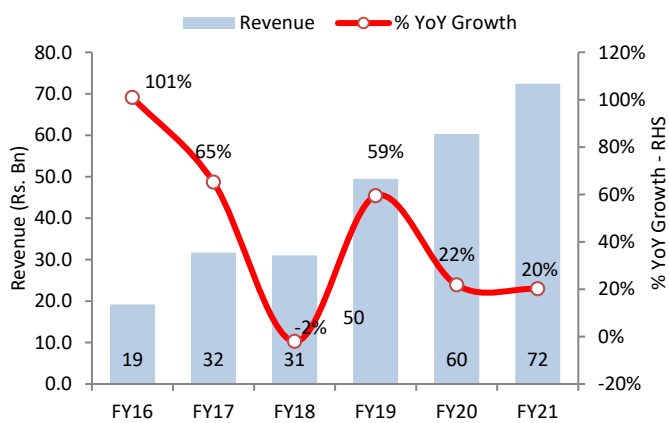
Income Statement Analysis

The company's revenue has seen strong 33% CAGR in the last 3 years, primarily driven by strong order intake and expansion into new geographies. Recently it also forayed into the railways segment, opening further growth avenues.

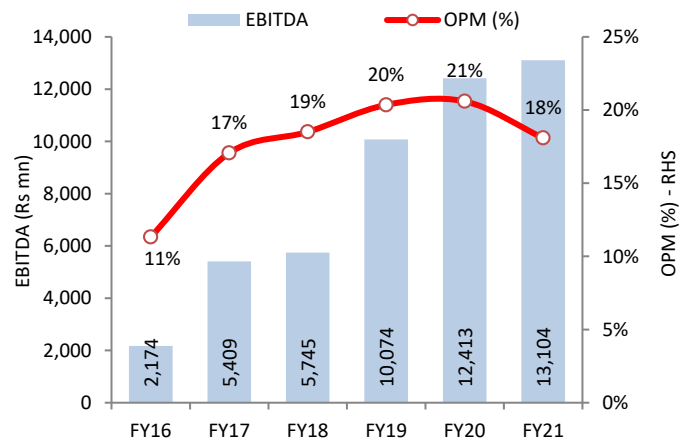
GR's EBITDA margin has expanded to 20% in FY20 from 10% in FY15; this appears to have been led by more execution of captive HAM projects, aided additionally by possible cost-control measures. The company has also won ECB (early completion bonus) over this period, which would have also boosted margins. We find these margins not sustainable in the medium to long term, as the company will need to diversify segmentally and geographically.

Strong topline growth and margin expansion has led GR to report 25% CAGR in profits in the last three years. Its ROE/ROCE also is one of the best in the industry, and is expected to remain so, with zero capital raising through the IPO (100% OFS).

GR Infra has had a strong revenue growth profile ...

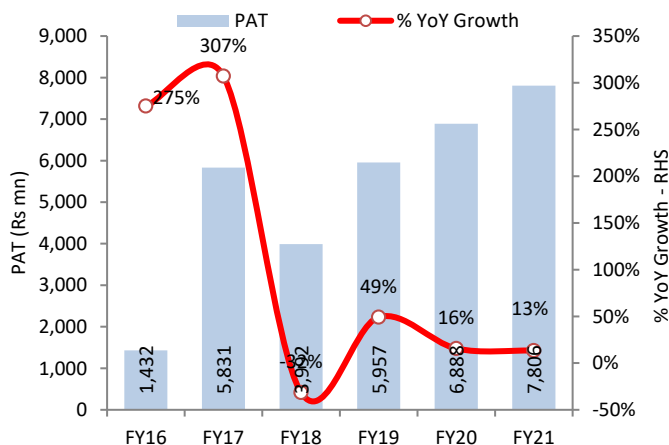


... Along with steadily improving margin profile

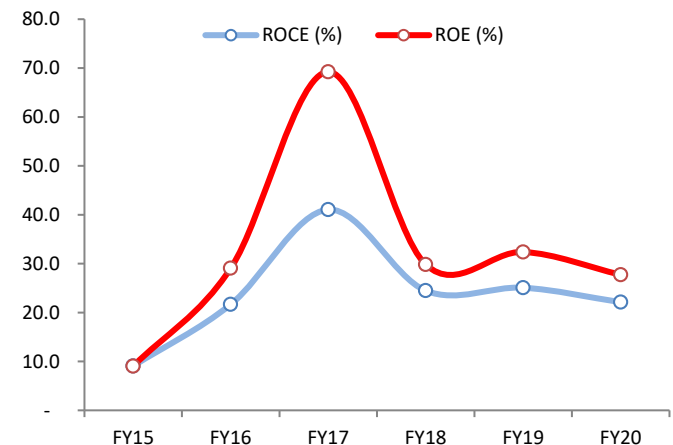


Source: RHP, Company, PhillipCapital India Research

GR's earnings growth has been steady ...



... while return ratios one of the best in industry



Source: RHP, Company, PhillipCapital India Research

GR Infra's growth and margins are much superior in comparison to peers

Companies	Rev CAGR (FY18-21)	EBIDTA Margins	PAT CAGR (FY18-21)
GR Infraprojects	33%	18%	25%
Sadbhav Engg	-23%	13%	-43%
Ashoka Buildcon	16%	14%	20%
PNC Infratech	38%	14%	13%
KNR Const	12%	20%	-4%
Dilip Buildcon	6%	16%	-20%
HG Infra	22%	16%	36%

Source: PhillipCapital India Research Estimates

Revenue sustainability is in doubt, as GR attempts to cross a dreaded threshold

We are concerned about the sustainability of both revenue growth and margins from current levels.

While the construction space remains highly fragmented, with lots of small players, there is a significantly large ‘chasm’ that very few companies have been able to cross over the last few decades. L&T remains the largest construction company, with an annual turnover of over Rs 1.2trillion. Next in line in the listed space is NCC with a turnover of barely Rs 80bn. No company has been able to cross the hurdle of Rs 100bn turnover over so many years.

Most EPC companies have been unable to cross the hurdle of Rs 60bn/80bn topline successfully – apart from NCC/Dilip

Rs mn	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
NCC	41,514	47,778	50,737	52,505	57,249	61,173	82,969	83,252	78,921	75,593	1,20,798	82,188	72,557
Dilip Buildcon	NA	2,305	4,343	11,872	19,107	23,158	26,241	40,853	50,976	77,459	91,182	89,838	92,089
Simplex	46,627	44,435	46,912	58,976	58,208	55,130	55,816	59,046	56,075	57,662	60,415	39,045	39,045
Sadbhav Engg	10,587	12,565	22,092	26,755	18,110	23,581	29,698	31,863	33,203	35,051	35,492	22,517	16,236
HCC	33,137	36,442	40,932	39,915	38,371	40,395	41,267	41,909	41,959	45,751	43,410	36,436	25,897
IVRCL	48,819	54,923	56,515	61,780	37,591	43,048	31,174	23,617	20,153	14,135	7,292	NA	NA
Gammon India	36,998	45,363	56,334	55,337	51,974	32,793	29,670	17,184	7,617	2,424	1,974	NA	NA

Source: Companies, PhillipCapital India Research

The biggest challenge in EPC companies crossing the Rs 80bn ‘chasm’ is the management bandwidth and diversification. Most EPC companies start as a regional player (PNC - UP, Ahluwalia - North India, KNR – South India, JKumar – Mumbai, Dilip - MP) with their businesses restricted to 1-2 domains (roads/buildings/metros). While they are small, it is convenient for them to restrict their businesses to the geography/segment of their comfort – as they continue to report growth while maintaining margins. However, as they look at growth, they have to expand their businesses outside their comfort zones to new geographies and segments.

It is this litmus test that GR Infra would also need to pass. Growing beyond Rs 80bn topline, being in a single segment where competitive intensity tends to be very high, will be an arduous task in our opinion. Expanding to new segments will translate into requirement of better equipment and working-capital management – and is likely to lead to margin erosion. However, most importantly, it will be a test of GR’s management bandwidth – as the operations expand to multiple sites.

The problem is compounded for GR Infra, as it has been a single-segment company so far. To grow on a topline base of Rs 80bn, it would need to win orders of Rs 100-120bn every year; even this would just enable it to maintain the orderbook at the current level of book-to-sales. Wining Rs 100-120bn of orders in the highly competitive roads segment is an arduous task.

GR Infra will need inflow of Rs 100-120bn every year, to maintain 15% growth profile

Rs mn	FY21	FY22E	FY23E
Turnover	72,445	83,311	95,808
Assumed yoy growth		15.0%	15.0%
Year ending Orderbook	1,86,161	2,08,278	2,39,520
Assumed Book-to-sales	2.6	2.5	2.5
Order Inflow to maintain book-to-sales		1,05,428	1,27,050

Source: PhillipCapital India Research Estimates

Dilip Buildcon has been facing the same issue, and has hence diversified into the mining segment, which entails its own high capital requirement, for which the company had to recently dilute its equity again. Substituting roads segment order inflow with any other segment would prove extremely difficult, as it would entail challenging the incumbents and beating them at their own game – which is only achievable by diluting margins. So, net-net, diversification into other segments will either lead to higher capital requirement or margin dilution – both of which, are earning dilutive.

Margins could come under pressure, with diversification and ECB going away

Margins for EPC companies are always a function of how smoothly they are able to manage their operations. Margins tend to be higher for local single-segment companies (JKumar, KNR, PNC, Dilip) as they enjoy local knowhow and segmental expertise. As companies expand geographically and segmentally, both these advantages tend to fade away, and margins tend to drop. We have seen this with JKumar, Dilip Buildcon and PNC Infra. Only KNR has defied this trend, but that's primarily because it remains focussed on the four southern states, and two segments of roads and irrigation.

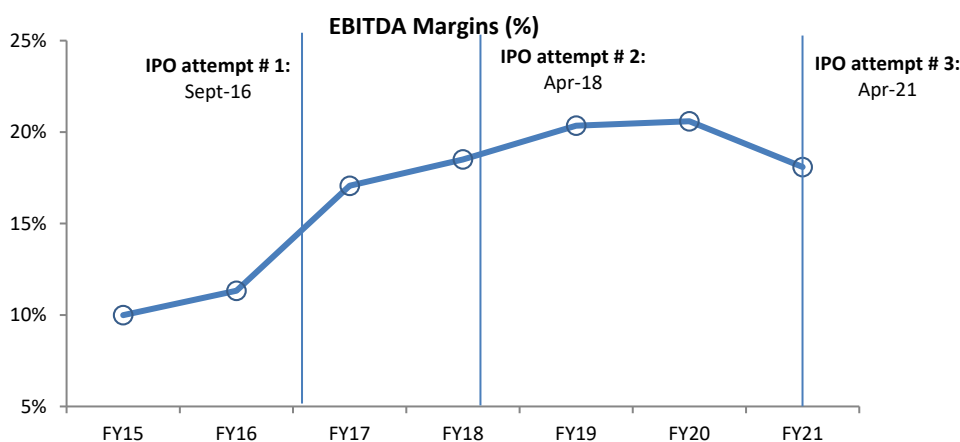
Diversification has invariably led to margin dilution, except for KNR

Companies (%)	FY16	FY17	FY18	FY19	FY20	FY21
PNC Infratech	13.2	13.1	17.2	14.8	15.7	13.7
KNR Const	16.9	14.9	20.0	20.0	21.7	19.8
Dilip Buildcon	19.6	19.5	18.1	17.6	17.5	16.0
JKumar	17.6	15.6	15.7	15.7	14.4	12.1

Source: PhillipCapital India Research Estimates

Also, we find it quite intriguing that GR Infra's EBITDA margins – that remained in the range of 10-12% over FY11-16 – suddenly jumped to 18-20% over FY17-20. Interestingly, FY17 was the first time that GR Infra filed for an IPO. As noted earlier, this is company's third attempt at listing on the bourses. Part of the margin jump could be explained by GR getting into HAM projects – captive projects tend to provide better margins. But that can, at best, account for 200-400bps of margin expansion. The 600-800bps jump in the margins appears unsustainable to us.

Margins have jumped for the company ever since its first attempt at going public



Source: DRHPs, Company, PhillipCapital India Research

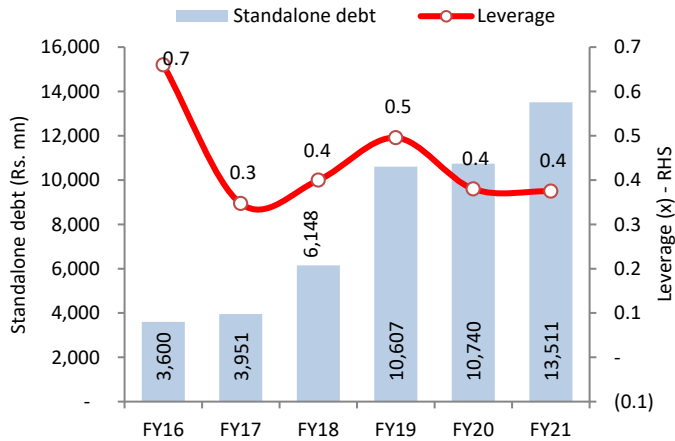
In any case, we believe that these margins are not sustainable for the company, as it grows and has to diversify segmentally. As the competitive intensity in the road segment increases, GR Infra's margins would take a hit on two counts:

- 1) The projects that GR Infra wins in the road segment would fetch relatively lower returns and margins due to higher competitive intensity.
- 2) When it chooses to diversify into another segment, that step will be fraught with investment requirements and learning curve of a new domain – which is always margin depletive for companies.

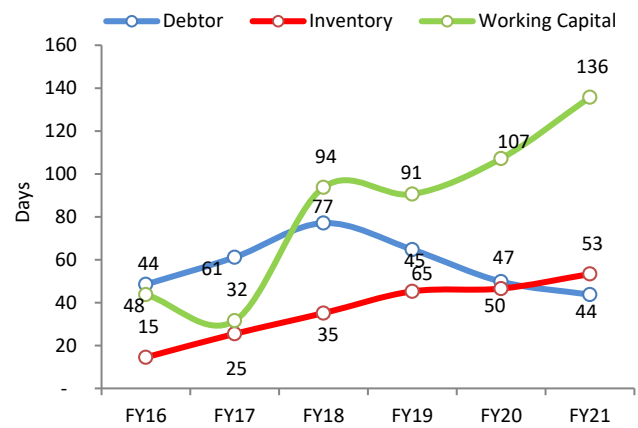
Balance Sheet Analysis

The company's leverage has reduced to a decent 0.4x currently, vs. 0.6x in FY15. Working capital also appears stable with debtor/inventory days both below 50. The jump in NWC from FY18 is largely due to IND-AS adoption – but it is still looking healthy at 136 days in FY21 (jumped due to investment in HAMS – details later).

GR's leverage has steadily come down ...



... with tight control over working capital



Source: RHP, Company, PhillipCapital India Research

The company has a well-diversified borrowings profile ranging from term loans to ECBs to debentures.

GR Infra's Debt profile (FY21)

Particulars (Rs mn)	Sanctioned amount	Outstanding amount
Secured Long Term Borrowings		
Rupee term loans	3,750	2,241
ECB term loans	1,000	966
Working capital facilities	2,500	454
Non-convertible debentures	5,240	4,633
Unsecured Long Term Borrowings		
Rupee term loans	750	755
Inter corporate loans	48	48
Working capital facilities	2,500	2,380
Non-convertible debentures	1,990	2,036
Total Standalone Borrowings	17,528	13,511
Borrowings of subsidiaries		
Term Loan	61,882	30,490
Non-convertible debentures	1,352	948
Total Consolidated Borrowings	80,761	44,950

Source: RHP, Company, PhillipCapital India Research

Balance sheet – Comparison with peers

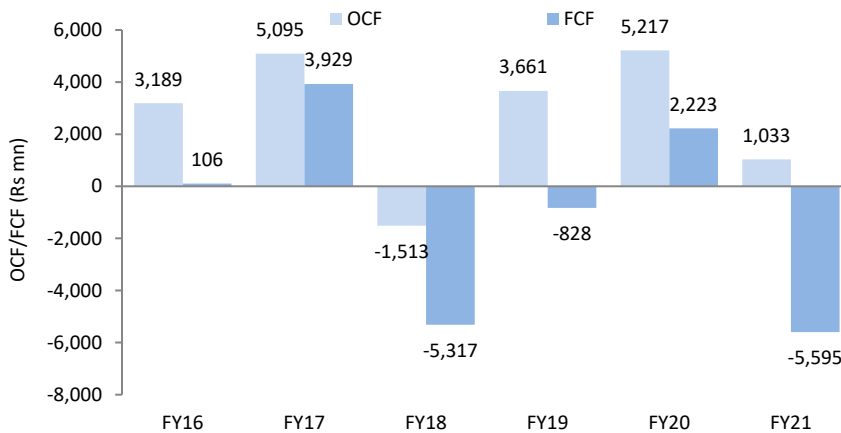
Companies (FY21)	ROE	Leverage	Interest Coverage	FCF (Rs mn)	OCF (Rs mn)
GR Infraprojects	24.3	0.4	6.3	-5,595	1,033
Sadbhav Engg	1.9	0.5	0.8	392	38
Ashoka Buildcon	14.6	0.1	6.0	-1,149	-519
PNC Infratech	13.3	0.1	5.3	-450	2,500
KNR Const	14.0	0.0	5.8	3,148	1,838
Dilip Buildcon	8.5	0.9	1.2	-1,675	231
HG Infra	22.8	0.2	4.3	2,832	5,313

Source: PhillipCapital India Research (*GR Infra FY21 OCF/FCF impacted by investment in HAMS – details later)

GR Infra has one of the healthiest balance sheets in the industry. Its asset turnover (at 3.6x) is also better than most peers. Investment and loans to subsidiaries have increased over the last three years, primarily due to the expansion of its HAM portfolio. We are not too concerned about that yet, as the company continues to generate positive OCF and FCF – much higher than peers.

Notably, in FY21, OCF and FCF has been impacted by the company deciding to invest the parent company money into HAM projects (available at much lower rate) than borrowing at the SPV level – akin to what KNR Construction is doing. The cashflows have also been impacted by higher unbilled revenues due to covid-19.

GR Infra has consistently generated positive OCF and FCF



Source: RHP, Company, PhillipCapital India Research

Contingent liabilities – not a cause of concern

Contingent liabilities (Rs mn)	FY18	FY19	FY20	FY21
Claims against the Group not acknowledged as debts				
(i) Indirect tax matters	64	219	227	259
(ii) Direct tax matters	0	46	47	0
(iii) Civil matters	-	246	223	256
Guarantees given to third parties	15,214	13,400	18,758	14,346
Total	15,278	13,911	19,255	14,861

Source: RHP, Company, PhillipCapital India Research

Consolidated vs Standalone performance

While SPVs of most infra companies are debt laden as well as into losses, GR Infra's subsidiaries maintain relatively good financial health and are not a drag on its consolidated financials. Overall, subsidiaries contribute 5-7% of topline and 7-10% of earnings for GR Infra at the consolidated level.

GR Infra's business is also highly profitable at the consolidated level

Consol	FY16	FY17	FY18	FY19	FY20	FY21
Revenue	20,254	32,811	32,955	52,826	63,727	78,441
EBITDA	3,104	6,145	6,241	12,823	15,861	18,497
PAT	1,110	5,878	4,127	7,145	7,992	9,532
Standalone	FY16	FY17	FY18	FY19	FY20	FY21
Revenue	18,822	31,820	31,081	49,502	60,278	72,445
EBITDA	2,217	5,409	5,745	10,074	12,413	13,104
PAT	1,011	5,831	3,992	5,957	6,888	7,806
Subs	FY16	FY17	FY18	FY19	FY20	FY21
Revenue	1,433	991	1,873	3,324	3,449	5,997
EBITDA	887	735	496	2,748	3,448	5,393
PAT	99	48	135	1,188	1,105	1,726

Source: RHP, Company, PhillipCapital India Research

HAM Portfolio Analysis

GR Infra has a sizeable portfolio of BOT and HAM projects, while it has only one BOT project (operational since FY15). However, over the last five years, it has amassed a massive HAM portfolio (14 projects) – while five of them are operational, four are under construction, and five were recently awarded (awaiting FC and AD).

The total equity requirement for the 14 HAM projects stands at Rs 25bn. GR Infra has so far invested Rs 13bn equity into these HAM projects, leaving Rs 12bn to be invested over the next three years. We believe the company should be able to manage this from internal accruals, but that would significantly reduce scope for debt reduction at the standalone level.

GR Infra has a sizeable HAM portfolio

Name	Length	State	Cost (Rs bn)*	AD	Period	CoD
Reengus Sikar (BOT)	43.9	Rajasthan	NA	NA	NA	Sep-14
Phagwara Rupnagar	80.8	Punjab	13.7	Oct-17	15	Feb-20
Nagaur Mukundgarh	393.7	Rajasthan	8.4	Sep-17	10	Aug-18
Handia Varanasi	72.4	UP	24.5	Dec-17	15	Nov-20
Porbandar Dwarka	117.7	Gujarat	16.0	Feb-18	15	Apr-20
Akkalkot Solapur	38.9	Maharashtra	8.1	Dec-18	15	Mar-21
Gundugolanu - Devarapalli - Kovvuru	69.9	AP	17.2	Oct-18	15	-
Sangli - Solapur (Watambare to Mangalwedha)	45.6	Maharashtra	8.8	Dec-18	15	-
Dwarka (Khambhaliya-Devariya) pkg 1	71.9	Gujarat	10.2	Feb-20	15	-
Aligarh-Kanpur (Pckg-IV Naviganj - Mitrasen)	71.0	UP	20.6	Feb-21	15	-
Ena Kim Expressway (Mum Del)	36.9	Gujarat	20.0	TBA	15	-
Shirsad Masva (Mum Del)	27.1	Maharashtra	23.3	TBA	15	-
Bilaspur-Urga (Pkg 1, Raipur-Dhanbad)	70.2	Chhattisgarh	15.3	TBA	15	-
Galgalia-Bahadurganj	49.0	Bihar	10.5	TBA	15	-
Bahadurganj- Araria (Pkg 2)	45.0	Bihar	10.8	TBA	15	-
Total	258.4		170.7			

Source: RHP, Company, PhillipCapital India Research (*Estimated cost, wherever not available in official documents)

Like most players in the market, GR Infra is also looking to sell part/full stake in its HAM portfolio. It has engaged with multiple investors. But given that it is a buyer's market and many other players are also queued up to sell their HAM/BOT portfolio, we believe it might take some time for the company to sell stake in its HAM portfolio and/or it might not be able to get a fair value for it. However, since the standalone balance sheet for the company is strong enough, we do not see it becoming desperate to sell these assets.

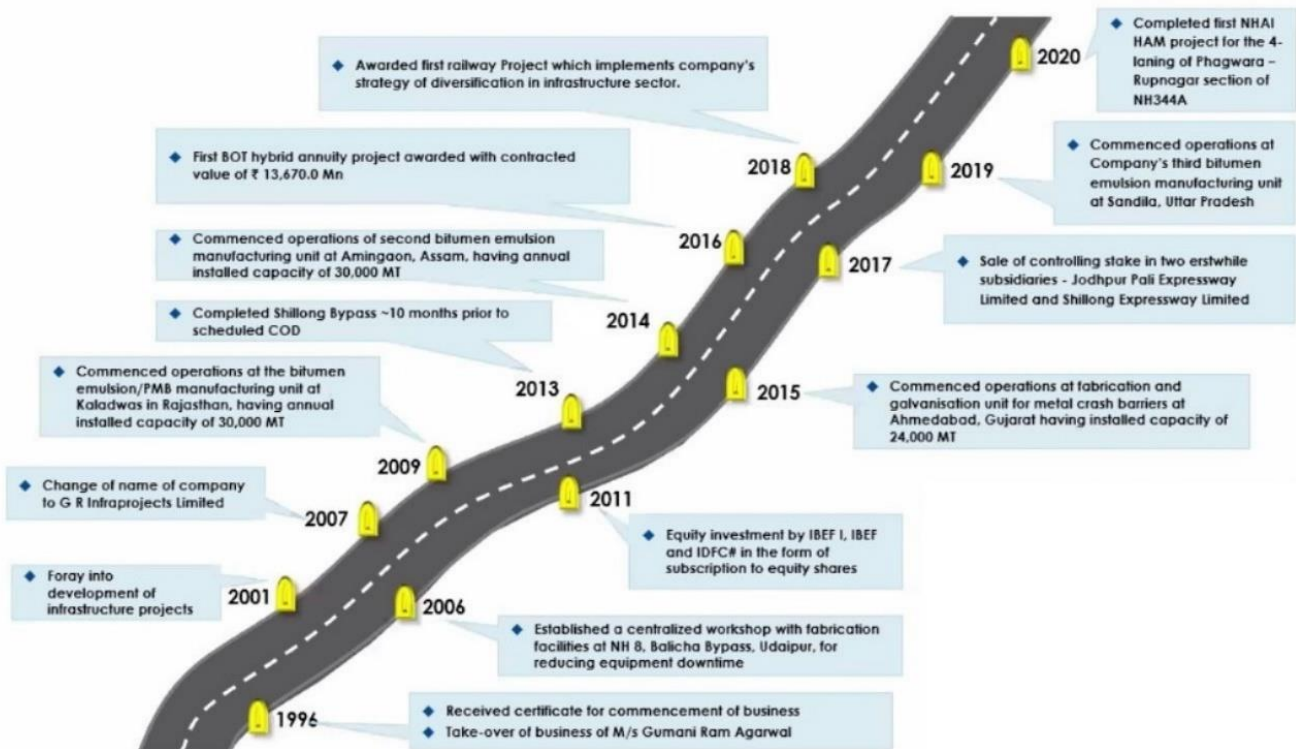
Management profile

The promoters of GR Infra have been in the construction industry for over 25 years. The company has been managed by the two brothers – Mr Vinod Kumar Agarwal and Mr Ajendra Kumar Agarwal – aided by Mr Vinod’s son (Vikas Agarwal). The company has a professional management in the form of Mr Anand Rathi as CFO and other department heads.

Key Management Personnel

Name	Designation	Age	Profile	Other Directorships
Vinod Kumar Agarwal	Chairman	61	Being one of the promoters, 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. He is also the president of the National Highways Builders Federation.	1) Porbandar Dwarka Expressway Private Limited 2) Reengus Sikar Expressway Limited
Ajendra Kumar Agarwal	MD	57	Being one of the promoters, he holds a bachelor’s degree in civil engineering and 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. 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 which has leveraged the timely completion of company’s projects.	1) Porbandar Dwarka Expressway Private Limited
Vikas Agarwal	WTD	40	He holds a bachelor’s degree in commerce. He has been associated with the Company since April-06 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 management from time to time.	1) GR Akkalkot Solapur Highway Pvt Ltd 2) GR Phagwara Expressway Ltd 3) Reengus Sikar Expressway Ltd 4) Varanasi Sangam Expressway Pvt Ltd
Ramesh Chandra Jain	WTD	56	He holds a bachelor’s degree in civil engineering and has experience of over 27 years in the roads construction business. Prior to joining GR Infra, he was associated with NHAI. He joined Jan-15 and is responsible for monitoring of construction of roads, highways and bridges. He is also responsible for the bidding process for new projects.	Nil
Chander Khamesra	Non-Executive Independent Director	55	He holds a bachelor’s degree in commerce and a master’s degree in business administration (executive). He has 21 years of experience in the jewellery industry.	1) Mayura Jewels (India) Private Limited
Kalpana Gupta	Non-Executive Independent Director	62	She has a master’s degree in science specializing in zoology and a diploma in marketing and sales management. She is also an associate of the Indian Institute of Bankers. She has prior experience of over 34 years in the banking sector and was most recently associated with Punjab National Bank as general manager.	Nil
Mahendra Kumar Doogar	Non-Executive Independent Director	69	He holds a bachelor’s degree in commerce & a fellow of the Institute of Chartered Accountants of India. He is currently a senior partner at Doogar & Associates and has cumulative experience of over 27 years in the fields of accounting, capital markets and merchant banking	1) D and A Financial Services Private Limited 2) Doogar and Associates Securities Private Limited 3) Frick India Limited 4) Kamdhenu Limited 5) Morgan Ventures Limited 6) Sanghi Industries Limited
Rajendra Kumar Jain	Non-Executive Independent Director	54	He holds a master’s degree in commerce (specializing in business administration) & a fellow of the Institute of Company Secretaries of India. He has over 17 years of experience as a practicing company secretary.	1) Corporate Global Services Private Limited

Source: RHP, Company, PhillipCapital India Research

Timeline of the company


Source: RHP, Company, PhillipCapital India Research

Strong execution track record

Track Record of Timely Completion Through In-House Integrated Model

In-house capabilities for inputs leading to extensive control on execution

Extensive In-House Capabilities		
Manufacturing Facility	Location	Installed Capacity
Emulsion Facility and Fabrication Unit	Udaipur, Rajasthan	30,000 MT
Emulsion Facility	Guwahati, Assam	30,000 MT
Metal Crash Barrier Fabrication & Galvanization	Ahmedabad, Gujarat	24,000 MT
Emulsion Facility	Sandila, Uttar Pradesh	24,960 MT

Repair and Maintenance Workshop in Udaipur, Rajasthan set-up to undertake repair and maintenance of 7000+ construction equipment and Vehicles

Key raw material like bitumen and diesel transported from manufacturing plants and refineries to project sites for captive consumption, in **vehicles owned by Company: Reduces pilferage and adulteration**

Key Advantages

- Equipment base enables rapid mobilization reducing project execution time
- Vehicle base facilitates timely transportation of the raw materials for construction
- 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

Established Project Cycle With Proven Execution		
GRIL Advantage		
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Dedicated tender department <input checked="" type="checkbox"/> If GRIL does not meet specific projects' eligibility requirement; GRIL forms project specific joint-ventures and consortiums with other infrastructure and construction companies <input checked="" type="checkbox"/> Multi-tiered project management system: Helps track the physical and financial progress of work vis-à-vis the project schedule <input checked="" type="checkbox"/> Hands-on approach followed by Senior Management <input checked="" type="checkbox"/> Timely execution of projects <input checked="" type="checkbox"/> Trained and skilled manpower <input checked="" type="checkbox"/> Efficient deployment of equipment and an in-house integrated model 		
INR 2,800.35 Million Early Completion Bonus Received		
Project	Completed earlier than scheduled (in days)	Gross Bonus received (INR million)
Nagaur Mukundgarh Project	394	1,196.50
Porbandar Dwarka Project	299	535.81
Shillong Bypass Project	318	432.10
Hisar Dabwali Package 2	106	194.40
Hisar Dabwali Package 1	115	164.70
Faridkote – Kotakpura Project	90	154.28
Jowai – Ratacherra Project	46	68.76
Phagwara Rupnagar Project	38	53.80

Source: RHP, Company, PhillipCapital India Research

Key Financial Assumptions

- We expect GR Infra to report 15% topline CAGR over next two years. Its size and single-segment presence would prevent it from growing at a faster pace, in our opinion.
- We expect margins to taper down to 17% by FY23, as it expands into other segments to maintain steady growth.
- We expect PAT CAGR of 8% over the next two years.

Key financial assumptions for GR Infra for next two years				
Key Assumptions (Rs mn)	FY20	FY21	FY22E	FY23E
Orderbook	1,58,606	1,90,258	2,06,947	2,31,139
Book-to-sales	2.6	2.6	2.5	2.4
Revenue	60,278	72,445	83,311	95,808
% yoy growth	21.8%	20.2%	15.0%	15.0%
EBITDA	12,413	13,104	14,996	16,287
EBITDA Margins	20.6%	18.1%	18.0%	17.0%
PAT	6,888	7,806	8,354	9,067
% yoy growth	15.6%	13.3%	7.0%	8.5%

Source: PhillipCapital India Research Estimates

Key risk to the business and investment thesis

We foresee the following risks to GR Infra's business and investment thesis:

- **Size of Rs 72bn with presence in a single segment** – might lead to lower-than-industry growth, with limited opportunity, and increasing competition
- **Margins at 18-20% are not sustainable**, especially given that the company will have to expand into other segments to maintain a reasonable growth profile
- **Large HAM portfolio** of 14 projects will be difficult to monetize, given that it is a buyers' market
- **Regulatory risks** associated with the sector – slowdown in order awarding, delay in land acquisition and environmental clearance, political risks, etc.
- **Interest rate risk** – given that the company operates in a sector, with valuation of BOT/HAM assets inversely related to interest rate

Comparison with recent IPOs in the EPC space

Ove the last five years, multiple companies have listed in the EPC space. Starting with PNC Infra in 2016, Dilip Buildcon in 2017, and HG Infra in 2019 – all IPOs have delivered handsome returns from their listing price.

We put GR Infra close to PNC Infra and HG Infra – with their similar balance sheet quality and concentration in the roads segment. Dilip Buildcon had, and continues to have, high leverage and a much higher capital-intensive model than others.

Comparison with recent sector IPOs

Companies	Issuing Date	Last reported FY	Revenue (Rs mn)	Margins (%)	PAT (Rs mn)	EPS (Rs)	Rev CAGR (3 yrs)	PAT CAGR (3 yrs)	IPO Price**	Trailing valuations*	Annualized returns since IPO
PNC Infratech	May-15	FY15	15,610	13.9	1,004	5.0	7%	9%	76	11.4	24.9%
Dilip Buildcon	Apr-16	FY16	40,853	19.6	2,208	18.9	29%	-4%	219	8.1	21.1%
HG Infra	Feb-18	FY17	10,560	11.8	534	29.6	33%	46%	270	9.1	23.4%
GR Infra	Apr-21	FY21	72,445	18.1	7,806	80.5	33%	25%	837	9.4	

Source: PhillipCapital India Research Estimates (*Valuations adj for BOT/HAM value; ** IPO price adj for bonus, stock split etc)

Valuations

As the upper price band of Rs 837 per share, GR Infra is seeking a market cap of Rs 81bn. Adjusting that for Rs 25bn of equity to be invested in HAM projects (valued at conservative 0.7x P/BV) – it seeks a valuation of Rs 64bn for its EPC business, which translates into 8x FY21PE. If we make basic forecasts for the company, it comes to 7x FY23 PE – in line with the average multiple that most sector companies are trading at.

At the upper price band, GR Infra is seeking valuation of 7x FY23 PE for EPC business

Particulars	Rs mn
Upper price band (Rs)	837
Total no of shares (mn)	97.0
Market cap sought	81,157
Total Investment in HAMs	25,000
Multiple for HAM equity	0.7
Fair value of EPC business sought	63,657
FY23 PAT	9,067
Expected FY23 PE	7.0

Source: PhillipCapital India Research Estimates

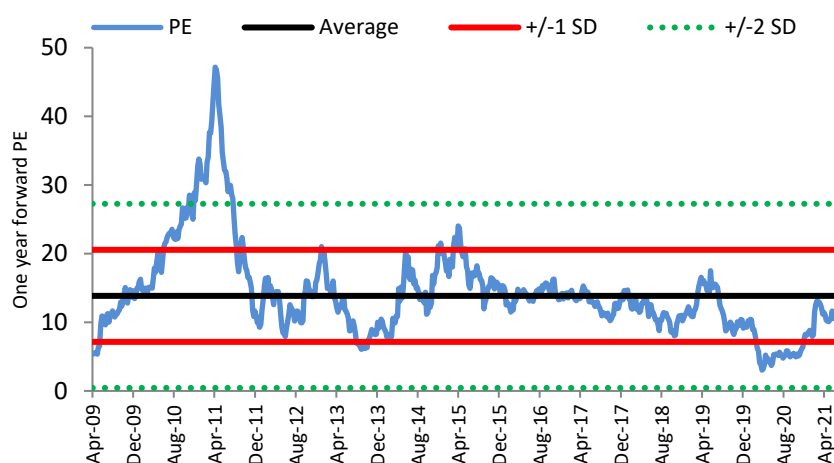
Infrastructure sector – Valuation table –

Company	P/E		EV/EBITDA		ROE		D/E		P/BV	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Ashoka Buildcon	7.8	6.4	6.6	5.4	11.8	12.6	0.1	0.1	0.9	0.8
Sadbhav Engg	26.4	17.6	15.1	12.5	3.3	4.7	0.6	0.6	0.9	0.8
NCC	12.3	8.3	6.4	5.0	7.5	10.1	0.3	0.3	0.9	0.8
KNR	17.9	14.4	10.5	8.3	16.7	17.3	0.0	0.0	3.0	2.5
ITD Cementation	14.5	9.9	5.1	4.0	8.3	11.0	0.4	0.4	1.2	1.1
PNC Infra	15.4	11.7	9.0	7.1	14.3	15.8	0.1	0.1	2.2	1.9
Ahluwalia	18.3	11.9	9.1	6.3	14.6	18.3	0.0	0.0	2.7	2.2

Source: PhillipCapital India Research Estimates

Also, given the average trading multiple of 14x one-year forward PE, and peak multiple of 18-20x one-year PE, the stock provides significant rerating potential at the IPO's asking valuations.

NCC has traded at an average historical multiple of 14x over the last 15 years



Source: PhillipCapital India Research Estimates

Overall, we like the company and its strong fundamental in terms of its strong execution track record, healthy balance sheet and strong cashflow generating profile. Asking valuations are highly attractive, even after taking our growth/margin concerns into account. **We recommend investors SUBSCRIBE to the IPO.**

Financials

Income Statement

Y/E Mar, Rs mn	FY18	FY19	FY20	FY21
Net sales	31,047	49,502	60,278	72,445
Growth, %	-2	59	22	20
Total income	31,047	49,502	60,278	72,445
Employee expenses	-1,801	-3,472	-4,466	-4,548
Other Operating expenses	-406	-626	-695	-952
EBITDA (Core)	5,745	10,074	12,413	13,104
Growth, %	6.2	75.4	23.2	5.6
Margin, %	18.5	20.4	20.6	18.1
Depreciation	-806	-1,381	-1,868	-2,268
EBIT	4,939	8,693	10,545	10,835
Growth, %	3.5	76.0	21.3	2.8
Margin, %	15.9	17.6	17.5	15.0
Interest paid	-630	-1,057	-1,452	-1,396
Other Non-Operating Income	518	674	938	1,275
Pre-tax profit	4,827	8,310	10,030	10,715
Tax provided	-835	-2,353	-3,142	-2,908
Profit after tax	3,992	5,957	6,888	7,806
Net Profit	3,992	5,957	6,888	7,806
Growth, %	(31.5)	49.2	15.6	13.3
Net Profit (adjusted)	3,992	5,957	6,888	7,806
Unadj. shares (m)	97	97	97	97
Wtd avg shares (m)	97	97	97	97

Orderbook

Y/E Mar, Rs mn	FY18	FY19	FY20	FY21
Orderbook	1,02,335	1,92,000	1,58,606	1,90,258
Growth YoY (%)	28%	88%	-17%	20%
Book-to-Sales (x)	3.3	3.9	2.6	2.6
Order Inflow	53,596	1,39,166	26,883	1,04,097

Balance Sheet

Y/E Mar, Rs mn	FY18	FY19	FY20	FY21
Cash & bank	2,367	6,064	8,403	5,416
Debtors	6,556	8,778	8,218	8,676
Inventory	2,986	6,136	7,684	10,584
Loans & advances	2,382	4,239	6,795	10,495
Total current assets	18,246	31,178	38,093	45,506
Investments	2,295	2,572	2,550	3,636
Gross fixed assets	7,953	12,173	15,155	20,317
Less: Depreciation	-1,802	-3,148	-4,833	-6,865
Add: Capital WIP	475	433	280	555
Net fixed assets	6,626	9,458	10,601	14,006
Total assets	29,433	44,841	51,906	63,577
Current liabilities	7,905	12,830	11,989	13,140
Total current liabilities	7,905	12,830	11,989	13,140
Non-current liabilities	6,148	10,607	11,647	14,393
Total liabilities	14,053	23,436	23,636	27,533
Paid-up capital	485	485	485	483
Reserves & surplus	14,895	20,919	27,785	35,561
Shareholders' equity	15,380	21,404	28,270	36,044
Total equity & liabilities	29,433	44,841	51,906	63,577

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY18	FY19	FY20	FY21
Pre-tax profit	4,827	8,310	10,030	10,715
Depreciation	806	1,381	1,868	2,268
Chg in working capital	-6,071	-4,276	-4,870	-9,033
Total tax paid	-1,076	-1,754	-1,811	-2,917
Cash flow from operating activities	-1,513	3,661	5,217	1,033
Capital expenditure	-3,527	-4,212	-3,016	-5,542
Chg in investments	-277	-277	22	-1,087
Cash flow from investing activities	-3,804	-4,489	-2,994	-6,629
Free cash flow	-5,317	-828	2,223	-5,595
Equity raised/(repaid)	291	763	-1,700	-1
Debt raised/(repaid)	2,198	4,458	133	2,771
Dividend (incl. tax)	0	0	0	0
Cash flow from financing activities	2,293	4,525	115	2,608
Net chg in cash	-3,024	3,697	2,339	-2,987

Valuation Ratios

	FY18	FY19	FY20	FY21
Per Share data				
EPS (INR)	41.2	61.4	71.0	80.5
Growth, %	(31.5)	49.2	15.6	13.3
Book NAV/share (INR)	158.6	220.7	291.6	371.7
FDEPS (INR)	41.2	61.4	71.0	80.5
CEPS (INR)	49.5	75.7	90.3	103.9
CFPS (INR)	(12.3)	30.5	41.2	(4.9)
Return ratios				
Return on assets (%)	16.6	17.8	16.0	14.9
Return on equity (%)	29.8	32.4	27.7	24.3
Return on capital employed (%)	23.8	24.7	21.6	19.1
Turnover ratios				
Asset turnover (x)	2.9	2.7	2.4	2.1
Receivable days	77.1	64.7	49.8	43.7
Inventory days	35.1	45.2	46.5	53.3
Payable days	113.6	118.2	90.3	79.4
Working capital days	93.7	90.6	107.2	135.8
Liquidity ratios				
Current ratio (x)	2.3	2.4	3.2	3.5
Quick ratio (x)	1.9	2.0	2.5	2.7
Interest cover (x)	7.8	8.2	7.3	7.8
Total debt/Equity (x)	0.4	0.5	0.4	0.4
Net debt/Equity (x)	0.2	0.2	0.1	0.2
Valuation				
PER (x)	20.3	13.6	11.8	10.4
PEG (x) - y-o-y growth	(0.6)	0.3	0.8	0.8
Price/Book (x)	5.3	3.8	2.9	2.3
EV/Net sales (x)	2.7	1.7	1.4	1.2
EV/EBITDA (x)	14.8	8.5	6.7	6.8
EV/EBIT (x)	17.2	9.9	7.9	8.2

(*Valuation ratios at upper price band)

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	>= +10%	Target price is equal to or more than 10% of current market price
NEUTRAL	-10% > to < +10%	Target price is less than +10% but more than -10%
SELL	<= -10%	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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