INSTITUTIONAL RESEARCH

G R Infraprojects

This is what good looks like

BUY

CMP *(as on 17 Sep 2021)*	INR 1,569
Target Price	INR 2,372
NIFTY	17,585

KEY STOCK DATA	
Bloomberg code	GRINFRA IN
No. of Shares (mn)	97
MCap (Rs bn) / ($ mn)	152/2,040
6m avg traded value (Rs mn)	-
52 Week high / low	Rs 1,839/1,543

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	-	-	-
Relative (%)	-	-	-

SHAREHOLDING PATTERN (%)

	Jun-21	Jul-21
Promoters	86.54	86.54
FIs & Local MFs	-	3.25
FPIs	-	2.28
Public & Others	13.46	7.93
Pledged Shares	-	-

Source : BSE

G R Infraprojects Ltd (GRIL) has built a highly capital efficient execution engine, well oiled with strong funding lines, powered by low interest costs and empowered by robust management depth and bandwidth. We believe its long-term growth trajectory would be largely funded by internal accruals and asset monetisation. Diversification will also not be a constraint as the company's strong balance sheet, low levels of fund/non-fund based utilisation, and strong cash flow generation bode well for growth. The Indian contractor's ecosystem is developing with a high number of contractors in early growth cycles failing to graduate to the next level due to lack of capital. A wide gap remains between the largest listed peer and the second largest company; we believe GRIL has the right ingredients which would put it on the path of narrowing the gap. It is well poised to deliver high quality/sustainable growth, which may lead to a multiyear rerating. We initiate with a BUY and Sep-23 SOTP of INR 2,372/sh (18x Sep-23E EPS).

- **Right ingredients in place:** GRIL has built a solid execution engine, which has helped it grow its profit 12.3x in the past 10 years. Its entire growth is funded by internal accruals with dilution accounting for just 2.2% of net worth. In this growth journey, a conservative stance on leverage, hawk-eye focus on cash flow, and prudent selection of projects have enabled GRIL to build a formidable infra execution franchise. Given its conservative stance, it has forged strong partnerships with financial institutions and enjoys among the lowest interest rates for under construction project debt, working capital and non-fund-based limits. This has now extended to completed projects, wherein GRIL is able to raise top-up loans at lowest rates vs. peers.
- **Well-diversified order book geographically, segment diversification key:** For GRIL, neither scale nor diversification is an issue. In the near to medium term, the focus will remain on central government funded roads and railways projects (including high-speed rail, metro, regional rapid transport system). In the long term, GRIL is open to bidding for new segments, provided the projects are funded by multilateral agencies, central government or state governments (financial closure should be in place) and are not margin or balance sheet dilutive. GRIL may not compromise quality for growth, and we believe that, with slight aggression, it may be able to get a higher market share in the existing segments only.
- **Monetisation of HAM portfolio will lead to further rerating:** We expect GRIL to grow its equity investments in the HAM portfolio to INR 37bn by FY24E (vs. 1QFY22 – INR 11bn), along with mid-teen equity IRRs. Its likely InvIT/monetisation may lead to substantial cash flow realisation. In the interim, GRIL may take out equity through top-up loans and monetisation will be subject to triggering of desirable valuation thresholds.

Standalone Financial summary

YE March (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	31,745	31,028	49,275	59,278	70,406	85,274	100,127	113,991
EBITDA	5,388	5,593	9,847	11,413	11,065	14,319	17,575	20,663
APAT	3,917	3,762	5,528	5,735	5,806	7,390	9,432	11,771
Diluted EPS (Rs)	40.5	38.9	57.2	59.3	60.0	76.4	97.5	121.7
P/E (x)	38.9	40.5	27.6	26.6	26.2	20.6	16.2	12.9
EV / EBITDA (x)	28.2	28.2	16.4	13.8	14.8	11.6	9.3	7.9
RoE (%)	46.9	28.2	30.0	23.1	18.1	18.4	19.0	19.1

Source: Company, HSIE Research

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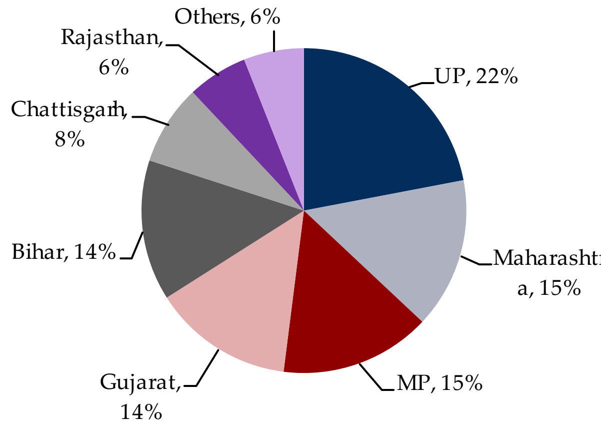
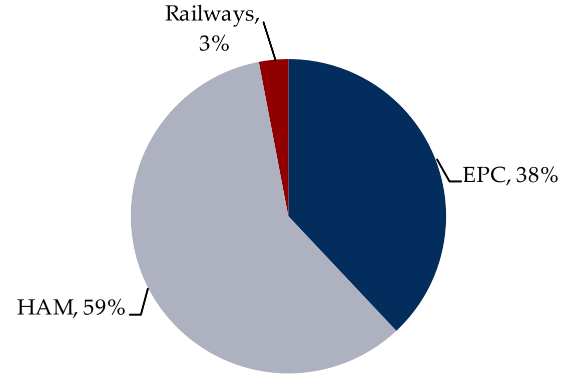
Story in charts

The order book (OB) is geographically well-diversified with scope in southern parts of India



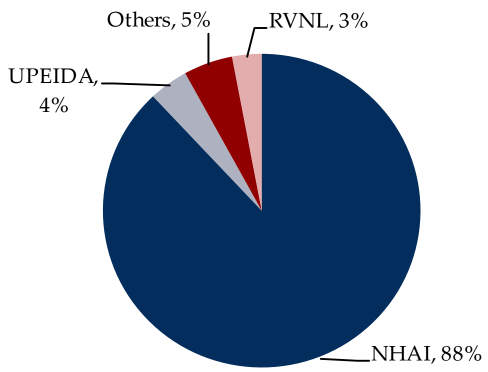
Source: Company *OB size: INR 151bn (ex L1 of INR 28bn)

Potential of segmental diversification of OB in the long term



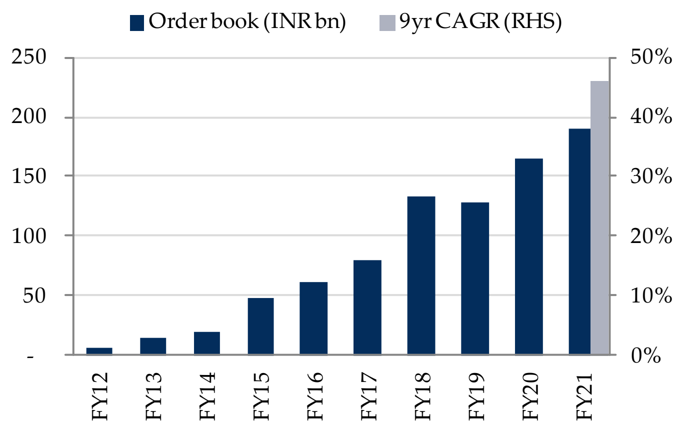
Source: Company

NHAI is the top client contributing 88% to the order backlog



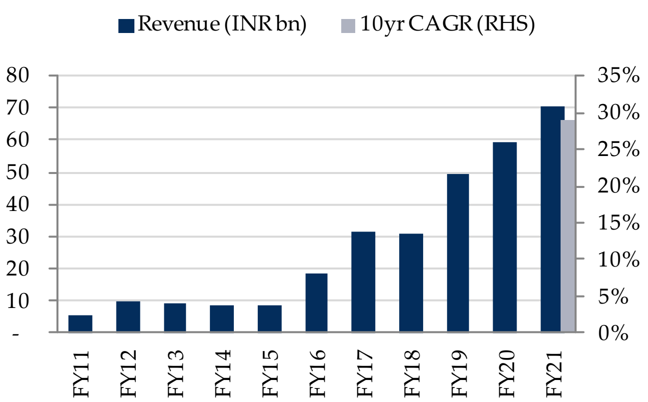
Source: Company

OB has grown at a CAGR of 46% since FY12



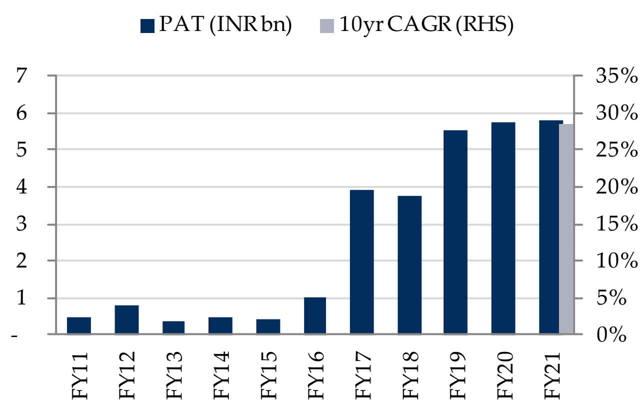
Source: Company

A robust 10 year revenue CAGR of 29% with FY21 revenue at INR 70bn



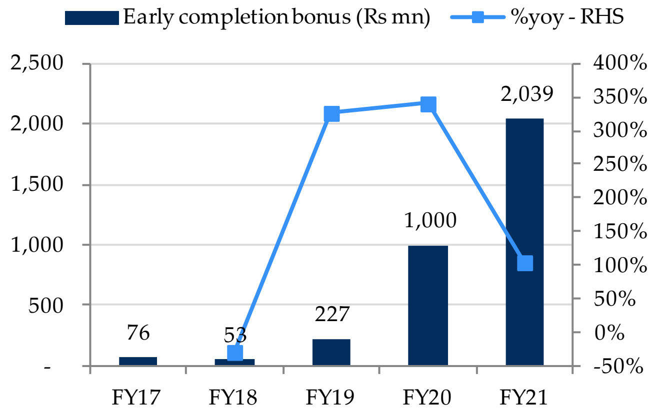
Source: Company

No. 1 in profitability among pure-play EPC road peers with FY21 PAT at INR 5.8bn



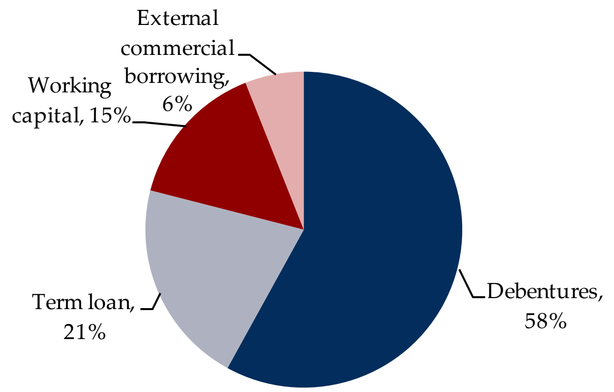
Source: Company *Gross debt at INR 13.5bn as of Mar'21

High execution capability evident from early completion bonuses



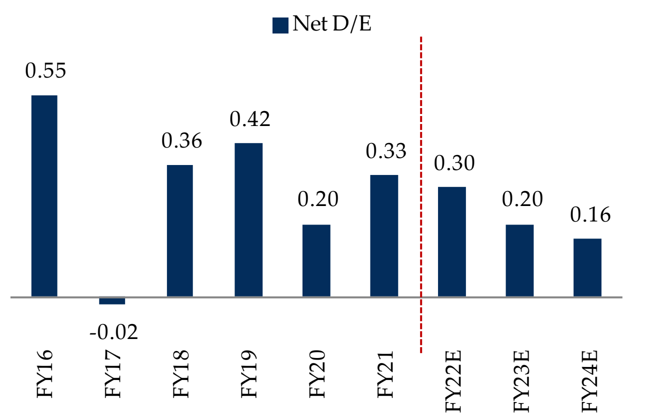
Source: Company

With highly optimized debt structure, GRIL enjoys lowest interest rate vs. peers



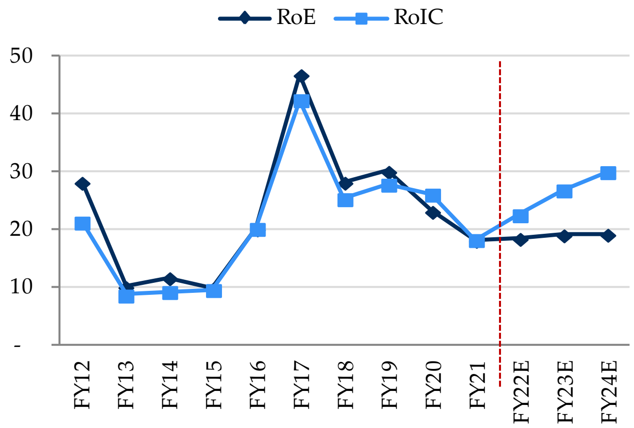
Source: Company

Net D/E is expected to decrease as gross debt remains stable whilst networth increases



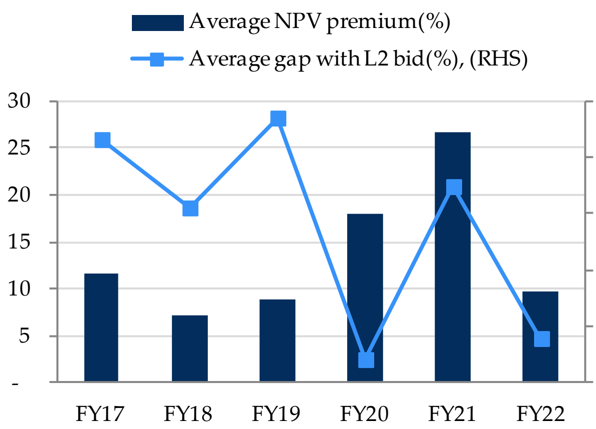
Source: Company

With growth in profits RoIC is expected to increase



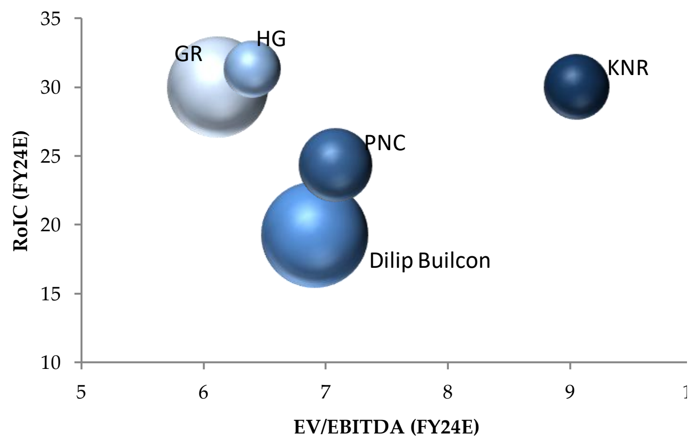
Source: Company *Size of the bubble reflects FY24E EBITDA

Projects have been won at higher premium than NHAI cost



Source: Company

On EV/EBITDA and RoIC, GRIL valuation is attractive



Source: Company *Size of the bubble reflects FY24E EBITDA

Contents

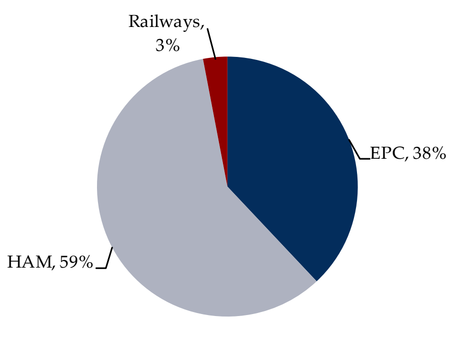
The story of success, growth, conservatism – minus leverage

Established in 1995, GRIL is an integrated road engineering, procurement and construction (EPC) company with experience in design and construction of various roads/highway projects across 15 states in India. It has recently diversified into projects in the railway sector. GRIL also has manufacturing activities, under which it processes bitumen, manufactures electric poles, road signages and metal crash barriers. Vinod Kumar Agarwal, Ajendra Agarwal, Purshottam Agarwal and Lokesh Builders Private Limited are the promoters of GR Infra and, with other members of the promoter group, collectively hold 86.5% of the subscribed and paid-up equity share capital of the company. Over the past 10 years, GRIL has delivered revenue/EBITDA/PAT CAGR of 29/30/29% on the back of robust 46% order book CAGR. Despite this strong growth, the net D/E has gone up from 0.07x to 0.33x. The net D/E build-up should be seen in the light of the company availing lower quantum of mobilisation advances vs. peers and making prompt payments to suppliers to avail better raw material pricing.

Growth high on quality, largely funded by internal accruals

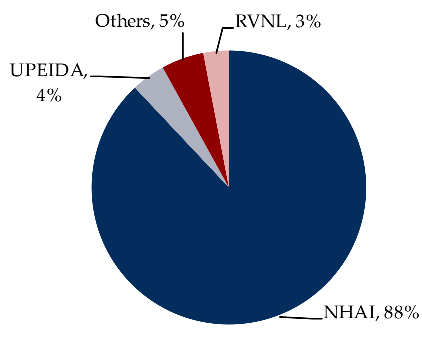
GRIL's promoters come from the farming background; late Shri Gumani Ram Agarwal took up construction due to lack of road connectivity to the farmlands in his village. What started as a small partnership firm is now a No. 1 pureplay roads EPC player in India (in terms of profitability). As infrastructure creation got a big government push in the early 2000s, GRIL carried out subcontracting work for the then tier-1 developers like ITNL, PWDs, Ashoka Buildcon, etc. After qualifying on its own and with support from INR 800mn funds raised from MOPE and IDFC, the big shift to NHAI projects took place. The change in bidding from item rate to design and build helped improve margins, profitability and net worth as GRIL embarked on a robust growth journey. Bharatmala Pariyojna-1 gave a big boost to its order book; since then, the average order size has increased from INR 1bn to INR 10bn. Profitability has multiplied 12.3x over FY09-21 whilst the net D/E is very much under control at 0.33x FY21.

1QFY22 order book*: Project Mix



Source: Company, * INR 151bn ex of L1 INR 28bn

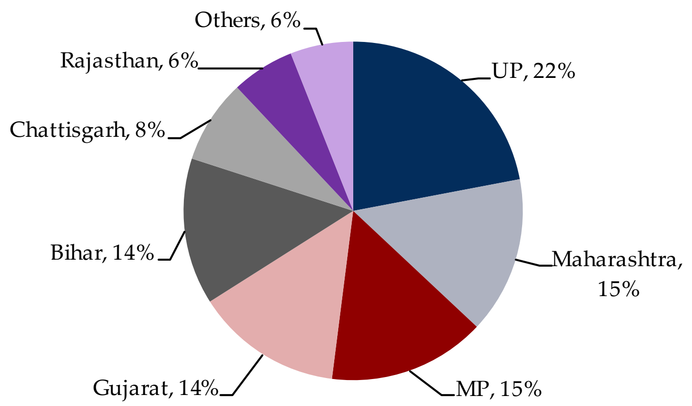
1QFY22 order book*: Client-wise



Source: Company, * INR 151bn ex of L1 INR 28bn

Roads segement constitutes 97% of the order book whilst railways' share stands at 3%. Client-wise, GRIL derives 88% of the order backlog from NHAI, 4% from UPEIDA (UP expressway), 3% from Rail Vikas Nigam (RVNL) and 5% from others.

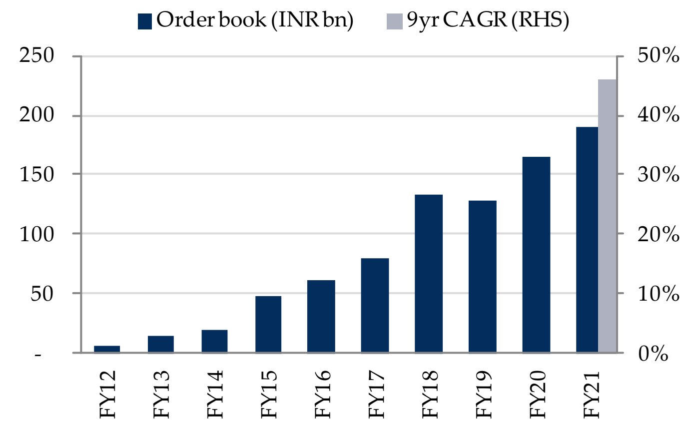
Order book: state-wise distribution



Source: Company

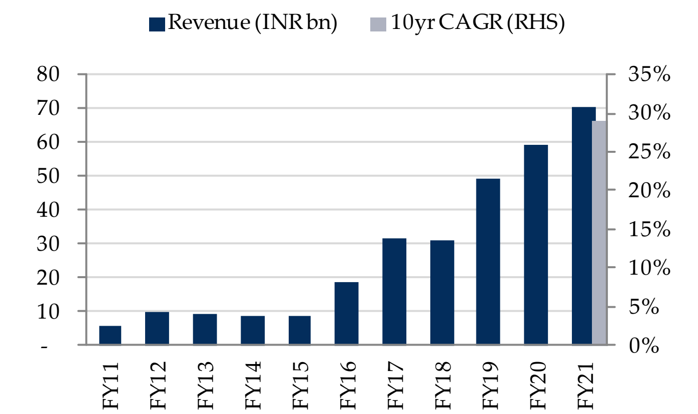
The order book is well diversified across more than 15 Indian states with near equal contribution coming from 5 states viz. Uttar pradesh, Maharashtra, Madhya Pradesh, Gujarat and Bihar. In the southern states, the presence has been limited to AP, which has the maximum order book exposure. There are opportunities to make inroads into Karnataka, Kerala, Telangana and Tamil Nadu and, to address the same; GRIL has been selectively bidding it these states.

Order book – FY12-21 CAGR 46%



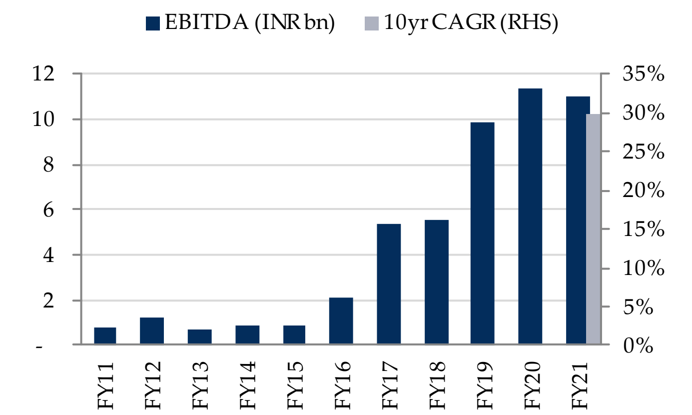
Source: Company

Revenue – FY11-21 CAGR 29%



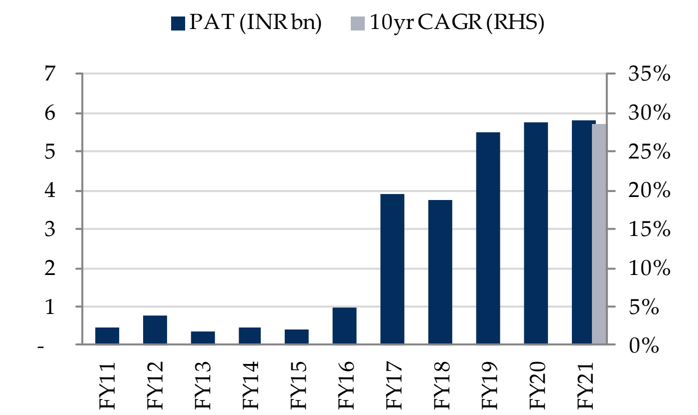
Source: Company

EBITDA – FY11-21 CAGR 30%



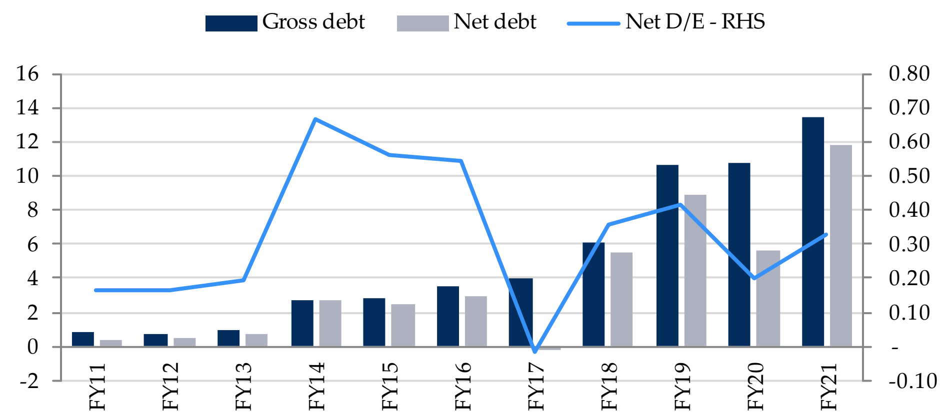
Source: Company

PAT – FY11-21 CAGR 29%



Source: Company

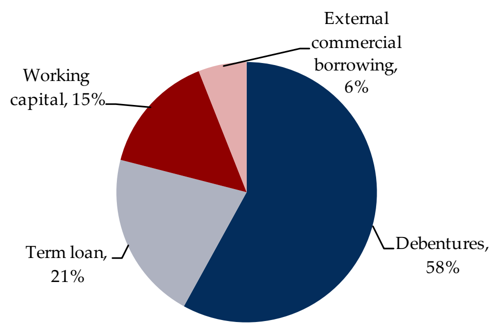
Debt level has been stable – largely outcome based to optimise interest levels



Source: Company

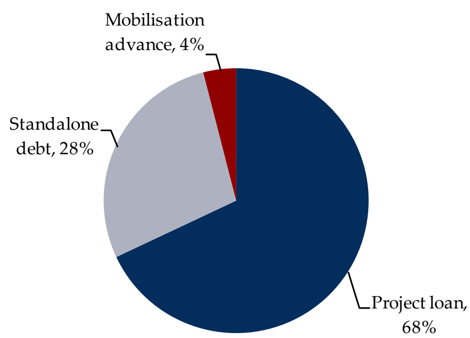
The gross debt of GRIL has increased to INR 13.5bn in FY21 from INR 900mn in FY11 at a CAGR of 32%. Most of the debt has accumulated over the past four years. On a standalone level, debentures form 58% of the total debt (as of June-21). The net D/E has increased from 0.17x in FY11 to 0.33x in FY21. GRIL runs a very interest efficient debt ship with different components like working capital, equipment finance, mobilisation advance and SPV debtors optimised to minimise its interest outgo. On NHAI HAM projects mobilisation advance, GRIL pays the bank rate as interest; on the NHAI EPC projects mobilisation advance, the interest payable is bank rate+300bps, on working capital ~5%, under construction HAM projects project finance at ~8% and completed PCOD HAM projects at sub ~7%. When GRIL avails the NHAI mobilisation advances, GST is deducted and it has to submit 10% BG for availing a mobilisation advance. So, on an INR-100 mobilisation advance , ~INR 12 is GST deduction and ~INR 10 is cash margin for availing BG. GRIL gets about INR 82 of mobilisation net. It makes sense to borrow from banks where one gets INR 100 in full without any deduction. GRIL enjoys the lowest interest rate vs. peers and hence is able to optimise interest costs. For the current OB, GRIL has INR 2.6bn of mobilisation advances, which in terms of its order book and size is only comparable to KNR.

Standalone debt (%)



Source: Company

Consolidated debt (%)



Source: Company

Debentures form a large part of the debt construct. GRIL raises low-cost debentures from mutual funds, banks, and financial institutions. External commercial borrowings are largely pertaining to a loan availed for equipment purchase. A large part of the debt is loans against equipment. Its consolidated debt comprises HAM project finance debt, client mobilisation advances and standalone debt. This is the active debt portfolio that GRIL manages efficiently so as to optimise the interest expense.

INR mn	Dilip Buildcon	KNR Construction	PNC Infratech	HG Infra	GR Infra
Mobilisation advances from NHAI/Client*	10,000	1,340	5,870	2,670	2,600
Fund and non-fund based limits*	91,430	21,450	60,000	13,100	39,500
Fund and non-fund limits utilization*	75-80%	50-55%	50-55%	65-70%	50-55%
Current long-term credit rating	CRISIL A/Stable (Reaffirmed)	CRISIL AA-/Positive (Reaffirmed)	CARE AA; Stable	[ICRA]A+, upgraded from [ICRA]A; outlook revised to Positive from Stable	CRISIL AA/Stable (Reaffirmed)

Source: Company *from rating rationale, Company

GRIL delivers superior 5-year growth vs. peers

When we compare GRIL's revenue CAGR with peers, we find it has delivered robust 43% revenue CAGR over the past five years on a relatively higher revenue base. Despite this, the standalone net D/E is 0.33x. Even during the worst-impacted COVID-19 year FY21, GRIL delivered 19% revenue growth, only slightly lower than KNR's growth of 20.5%.

INR bn	Revenue				EBITDA				PAT				Net D/E (x)
	FY19	FY20	FY21	5y CAGR	FY19	FY20	FY21	5y CAGR	FY19	FY20	FY21	5y CAGR	FY21
Ashoka Buildcon	38.2	38.4	38.2	14%	5.2	4.9	5.2	12%	3.2	3.2	4.1	19%	0.10
Dilip Buildcon	90.6	88.6	92.1	18%	15.4	14.4	15.2	16%	7.6	4.2	3.6	10%	0.79
KNR Construction	21.4	22.4	27.0	25%	4.3	4.9	5.4	29%	2.3	2.4	2.7	14%	-0.09
PNC Infratech	30.7	48.8	49.3	20%	4.3	7.6	6.7	20%	2.3	3.2	3.6	19%	-0.14
HG Infra	20.1	22.0	25.3	29%	3.0	3.4	4.1	39%	1.2	1.7	2.1	48%	0.14
Ahluwalia	17.5	18.8	19.8	10%	2.2	1.5	1.5	-1%	1.2	0.6	0.8	-2%	-0.35
PSP	10.4	15.0	12.4	22%	1.5	1.9	1.3	28%	0.9	1.3	0.8	27%	0.05
Capacite	17.9	15.3	8.8	2%	2.5	2.6	1.4	5%	1.0	0.8	0.0	-48%	0.14
GR Infra	49.3	59.3	70.4	30%	9.8	11.4	11.1	39%	5.5	5.7	5.8	43%	0.33
KPTL	71.2	79.0	76.7	12%	7.8	8.6	8.1	12%	4.0	4.5	4.9	20%	0.21
JMC	32.5	37.1	36.9	9%	3.4	4.1	3.3	9%	1.4	2.4	0.7	10%	0.56
KEC (consol.)	110.0	119.7	131.1	9%	11.5	12.3	11.4	11%	4.9	5.7	5.5	30%	0.93

Source: Company, HSIE Research

Intense competition, lack of EPC orders make GRIL shift to HAM

The EPC projects bidding and execution has been the mainstay of GRIL until the advent of Hybrid Annuity Model (HAM) adoption by the National Highways Authority of India (NHAI) and start of projects awards from 3QFY16. Given GRIL's conservative nature, the company didn't participate in these tenders until some 35 projects were bid out and awarded. GRIL stepped back, studied the model, and then took a plunge; it now has a portfolio of 16 HAM projects, of which seven have achieved PCOD, two are under construction and seven are awaiting an appointed date. Excluding the two new HAM wins in 2QFY22, the total equity investment in the portfolio is INR 11bn with balance INR 12.7bn to be invested over the next 2.5 years, up to FY24E.

Chronology of HAM project wins

GRIL has been consistently winning HAM projects since FY17. These have been won at an average 15.2% NPV premium vs the NHAI cost. GRIL's NPV is on an average 6.2% lower than the L2 bidders. Of its total NHAI HAM portfolio of 15 assets, six have achieved PCOD, two are under construction and seven are awaiting an appointed date.

Region	State	Type	Fiscal	Project	Project cost (INR mn)	L1	L1	L1 - NPV/Project cost (%)	L2	L2	L1B/L2B (%)
North	Punjab	HAM	FY22	Amritsar Bhatinda (Pkg-1)	7,725	8,786	GRIL	13.7	8,924	Chetak	(1.6)
North	Punjab	HAM	FY22	Ludhiana Rupnagar (Pkg-1)	8,463	8,950	GRIL	5.8	9,086	Agroh	(1.5)
West	Bihar	HAM	FY21	Bahadurganj-Araria (Pkg-2)	7,991	10,099	GRIL	26.4	10,943	Adani	(7.7)
West	Bihar	HAM	FY21	Galgalia - Bahadurganj (Pkg-1)	7,967	9,797	GRIL	23.0	10,676	Adani	(8.2)
West	Maharashtra	HAM	FY21	Vadodara Mumbai Pkg - 13 - SPUR Shirsad to Masvan	19,626	25,897	GRIL	32.0	26,226	Gawar	(1.3)
West	Gujarat	HAM	FY21	Vadodara Mumbai Pkg - 4 - Ena Kim	16,517	20,799	GRIL	25.9	24,121	IRB	(13.8)
East	Chhattisgarh	HAM	FY21	Bilaspur Urga	11,704	14,778	GRIL	26.3	15,362	IRCON	(3.8)
North	Uttar Pradesh	HAM	FY20	Aligarh Kanpur (Pkg 4)	17,066	20,113	GRIL	17.9	20,283	PNC	(0.8)
West	Gujarat	HAM	FY19	Dwarka - Khambaliya – Dewariya	8,986	9,782	GRIL	8.9	10,800	Montecarlo	(9.4)
West	Maharashtra	HAM	FY18	Sangli Solapur (Package III)	8,694	8,825	GRIL	1.5	8,987	DBL	(1.8)
West	Maharashtra	HAM	FY18	Akkalkot to Solapur	6,421	7,452	GRIL	16.0	8,247	Montecarlo	(9.6)
South	Andhra Pradesh	HAM	FY18	Gundugolanu-Devarapalli- Kovvuru	15,326	17,498	GRIL	14.2	18,173	DBL	(3.7)
West	Gujarat	HAM	FY18	Porbandar Dwarka	14,427	13,982	GRIL	(3.1)	15,491	Sadbhav	(9.7)
North	Punjab	HAM	FY17	Phagwara Rupnagar	11,696	12,168	GRIL	4.0	12,197	DBL	(0.2)
West	Rajasthan	State HAM	FY17	Nagaur Mukundgarh	7,620	9,143	GRIL	20.0	10,058	Gawar Infra	(9.1)
North	Uttar Pradesh	HAM	FY17	Handia Varanasi	20,650	22,836	GRIL	10.6	27,393	Chetak	(16.6)
Total					**190,879**	**220,905**		**15.2**	**236,967**		**(6.2)**

Source: Industry, HSIE Research

GRIL projects amongst fastest achievers of their appointed dates

We have collated the turnaround time for GRIL HAM projects from the Letter of Awards to receipt of appointed dates (AD). We see that GRIL's appointed dates came in, on an average, to about nine months from the date of the letter of award. Dilip Buildcon's AD turnaround is around seven months, KNR's is at 15 months, PNC Infra's is around 16 months, Ashoka's is 13 months and Sadbhav's is 14 months on an average. Whilst AD receipt (not in the hands of developers) is contingent on land being made available to the concessionaires, the more the delay, the better it is for concessionaires as inflation benefit can be pocketed, although delays may lead to growth estimates volatility and weaker revenue predictability.

Project	L1	Letter of Award	Appointed Date	Total Project Cost (INR mn)	Time for work start (months) from award/L1 date	Financial Closure	Bank	Status
Reengus Sikar	NHAI		5-Mar-12	2,275	-	Achieved	HDFC Bank	Operational
FY17 - wins								
Phagwara Rupnagar	NHAI	22-Aug-16	6-Oct-17	12,220	14	Achieved	HDFC Bank	Operational
Nagaur Mukundgarh	PWD	18-Jan-17	4-Sep-17	8,060	8	Achieved	PNB Bank	Operational
Varanasi	NHAI	29-Mar-17	5-Dec-17	22,300	9	Achieved	HDFC Bank	Operational
Sum				**42,580**				
FY18 - wins								
Porbandar Dwarka	NHAI	2-Jun-17	12-Feb-18	14,800	8	Achieved	SBI	Operational
Gundugulanu	NHAI	13-Mar-18	22-Oct-18	17,158	7	Achieved	Axis Bank	Operational
Sangli Solapur	NHAI	27-Mar-18	31-Dec-18	8,779	9	Achieved	HDFC Bank	Operational
Akkalkot Solapur	NHAI	27-Mar-18	14-Dec-18	7,406	9	Achieved	HDFC Bank	Operational
Sum				**48,143**				
FY19 - wins								
Dwarka Devariya	NHAI	8-Mar-19	8-Feb-20	10,215	11	Achieved	PNB Bank	Under construction
Sum				**10,215**				
FY20 - wins								
Aligarh Kanpur	NHAI	9-Mar-20	18-Feb-21	20,616	11	Achieved	HDFC Bank	Under construction
Sum				**20,616**				
FY21 - wins								
ENA KIM	NHAI	30-Jul-20	Sep-21	20,009		Achieved		Appointed Date Awaited
Shirsad Masvan	NHAI	15-Oct-20	Sep-21	25,222		Achieved		Appointed Date Awaited
Bilaspur Urga	NHAI	1-Feb-21	Sep-21	14,195		Achieved		Appointed Date Awaited
Galgalia to Bahadurganj	NHAI	3-Mar-21	Sep-21	9,670		Achieved		Appointed Date Awaited
Bahadurganj to Araria	NHAI	3-Mar-21	Sep-21	9,950		Achieved		Appointed Date Awaited
Sum				**79,046**				
FY22 - wins								
Amritsar Bhatinda (Pkg-1)	NHAI		4QFY22	9,270		Awaited		Appointed Date Awaited
Ludhiana Rupnagar (Pkg-1)	NHAI		4QFY22	9510		Awaited		Appointed Date Awaited
Sum				**18,780**				
Grand total				**221,654**				

Source: Industry, Company

Cash flow largely funding Capex and HAM investments

Over the years, GRIL has exercised a strong financial discipline to manage its cash flow in order to keep its debt under check. In this exhibit below, we highlight that the entire gross asset build-up, HAM equity investments, and working capital funding have been met by internal accruals. From FY13-21, debt went up by INR 12.2bn, largely to fund Capex, working capital and HAM equity. Debt increase is also a factor of availing the lowest cost of funds, optimal mix of interest bearing liabilities, and right sizing of capital structure. <u>If GRIL had availed INR 10bn of available mobilisation advances, the current liabilities would have been higher and debt much lower.</u>

INR mn	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**Cumulative FY13-21**
Major inflows:										
Opening cash balance	149	239	47	373	541	4,150	650	1,713	5,121	12,982
% of inflows	*12%*	*9%*	*6%*	*14%*	*9%*	*41%*	*5%*	*13%*	*28%*	
PBT+depreciation-tax	860	626	702	1,585	5,367	4,293	7,832	10,146	10,294	41,706
% of inflows	*67%*	*24%*	*83%*	*61%*	*87%*	*42%*	*66%*	*78%*	*57%*	
Share capital issuance	-	-	-	-	-	-	-	-	-	-
% of inflows	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	
Debt issuance	273	1,779	98	656	276	1,763	3,456	1,216	2,675	12,193
% of inflows	*21%*	*67%*	*12%*	*25%*	*4%*	*17%*	*29%*	*9%*	*15%*	
Total inflows	1,283	2,644	847	2,614	6,184	10,206	11,938	13,076	18,090	66,881
Major outflows:										
WC	(747)	(791)	452	(688)	(577)	(4,686)	(1,809)	(2,993)	(6,094)	(17,933)
% of outflows	*63%*	*28%*	*-105%*	*30%*	*-296%*	*41%*	*16%*	*38%*	*39%*	
Capex	(135)	(740)	(149)	(1,266)	192	(2,817)	(4,653)	(2,838)	(5,074)	(17,479)
% of outflows	*11%*	*26%*	*34%*	*55%*	*99%*	*24%*	*40%*	*36%*	*32%*	
Investments	(211)	(1,088)	(416)	(61)	1,038	(3,501)	(4,407)	(355)	(3,184)	(12,185)
% of outflows	*18%*	*39%*	*96%*	*3%*	*533%*	*30%*	*38%*	*5%*	*20%*	
Interest payment	(99)	(197)	(319)	(287)	(458)	(500)	(725)	(1,666)	(1,358)	(5,610)
% of outflows	*8%*	*7%*	*74%*	*12%*	*-236%*	*4%*	*6%*	*21%*	*9%*	
Total outflows	(1,192)	(2,816)	(432)	(2,303)	195	(11,503)	(11,593)	(7,852)	(15,711)	(53,207)

Source: Company, HSIE Research

Sensitivity of HAM orders – no major changes in debt

We have worked out sensitivity of HAM order wins on cash flow and leverage. We don't see any significant deterioriation in the balance sheet or need for equity dilution at the parent level, even if monetisation does not take place. We expect peak D/E to be at 0.24x, even if 75% of cumulative FY22-24E order wins are under the HAM mode. The detailed working here is self explanatory.

YE March (INR mn)	FY22E	FY23E	FY24E	Total
Order Book Details :				
Opening Order Book	190,591	245,316	300,189	190,591
Add: New Order Wins	140,000	155,000	100,000	395,000
Less: Orders Executed	85,274	100,127	113,991	299,393
Closing Order Book	245,316	300,189	286,198	286,198
Trailing Order Book/Sales (x)	2.9	3.0	2.5	
Scenario 1- HAM orders @ 50% in the inflow mix				
Mix (%)				
HAM	50			
EPC	50			
HAM order wins	70,000	77,500	50,000	197,500
Equity requirement @10%	7,000	7,750	5,000	19,750
Total equity invested – end 1QFY22 – A	11,000			
Balance equity requirement for existing HAM – B	13,000			
Additional equity requirement from new HAM wins over FY22-24E	19,750			
Of which new HAM equity Investment by FY24E – C	10,875			
Total equity to be invested between FY22-FY24E – B+C	23,875			
Total outstanding equity investment by FY24E – A+B+C	**34,875**			
Less: Monetization/Equity top up @50% - D	15,500			
Outstanding HAM Equity Investment by FY24E – A+B+C-D	**19,375**			
Scenario 2- HAM orders @ 60% in the inflow mix				
Mix (%)				
HAM	60			
EPC	40			
HAM order wins	84,000	93,000	60,000	237,000
Equity requirement @10%	8,400	9,300	6,000	23,700
Total equity invested – end 1QFY22 – A	11,000			
Balance equity requirement for existing HAM – B	13,000			
Additional equity requirement from new HAM wins over FY22-24E	23,700			
Of which new HAM equity Investment by FY24E – C	13,050			
Total equity to be invested between FY22-FY24E – B+C	26,050			
Total outstanding equity investment by FY24E – A+B+C	**37,050**			
Less: Monetization/Equity top up @50% - D	16,200			
Outstanding HAM Equity Investment by FY24E – A+B+C-D	**20,850**			
Scenario 3 - HAM orders @ 75% in the inflow mix				
Mix (%)				
HAM	75			
EPC	30			
HAM order wins	105,000	116,250	75,000	296,250
Equity requirement @10%	10,500	11,625	7,500	29,625
Total equity invested – end 1QFY22 – A	11,000			
Balance equity requirement for existing HAM – B	13,000			
Additional equity requirement from new HAM wins over FY22-24E	29,625			
Of which new HAM equity Investment by FY24E – C	16,313			
Total equity to be invested between FY22-FY24E – B+C	29,313			
Total outstanding equity investment by FY24E – A+B+C	**40,313**			
Less: Monetization/Equity top up @50% - D	17,250			
Outstanding HAM Equity Investment by FY24E – A+B+C-D	**23,063**			

Cash flow based on scenarios - Total Surplus	FY22E	FY23E	FY24E	Total
CFO - Post Tax	11,482	13,950	16,102	41,534
Less: NWC	(1,945)	(1,858)	(2,755)	(6,557)
Less: Capex	(3,328)	(3,959)	(3,509)	(10,797)
Less: Interest	(1,596)	(1,876)	(1,520)	(4,992)
Add: Other income	1,431	1,772	2,299	5,502
Surplus	6,044	8,029	10,617	24,690
Equity to be invested cumulative FY22-24E @50% HAM wins				23,875
Surplus/(Shortfall) @ 50% HAM wins				815
Equity to be invested cumulative FY22-24E @60% HAM wins				26,050
Surplus/(Shortfall) @ 60% HAM wins				(1,360)
Equity to be invested cumulative FY22-24E @75% HAM wins				29,313
Surplus/(Shortfall) @ 75% HAM wins				(4,623)
Add: cash FY21				1,657
Cash (Shortfall)/Surplus @ 50% HAM wins by FY24E – base case				**2,471**
Cash (Shortfall)/Surplus @ 60% HAM wins by FY24E				**296**
Cash (Shortfall)/Surplus @ 75% HAM wins by FY24E				**(2,966)**
Debt FY21				**13,511**
Debt FY24E @ 50% HAM wins				**11,040**
Debt FY24E @ 60% HAM wins				**13,215**
Debt FY24E @ 75% HAM wins				**16,477**
Debt/Equity -FY24E @ 75% HAM wins				**0.24**
Monetization at 50% of top up @50% HAM wins				15,500
Monetization at 50% of top up @60% HAM wins				16,200
Monetization at 50% of top up @75% HAM wins				17,250
Surplus including monetization @ 50% HAM wins				17,971
Surplus including monetization @ 60% HAM wins				16,496
Surplus including monetization @ 75% HAM wins				**14,284**
Funds inflows - If need be dilution at CMP for achieving 75% promoter holding				**23,595**
Total Cash which may accrue in best case				**37,878**

Source: HSIE Research

Early completion bonus – amongst the few peers to earn it

GRIL has earned an early completion bonus on multiple projects, as highlighted in the table below. This speaks volumes for its strong execution and project management capabilities. Of late, the NHAI has been shortening the project completion timelines, which will make it difficult to predict the bonus eligibility. On the brighter side, some of the state governments have been coming out with greenfield expressways with early completion bonus clauses, which may help shore up profitability. Our earnings estimates do not factor in any early completion bonus.

Project	Scheduled construction period (in days)	Completed earlier than scheduled (in days)	Gross Bonus received (INR mn)
Nagaur Mukundgarh Project	730	394	1,197
Porbandar Dwarka Project	1,095	299	536
Shillong Bypass Project	1,095	318	432
Jowai – Ratacherra Project	910	46	69
Faridkote – Kotakpura Project	730	90	154
Hisar Dabwali Package 2	913	106	194
Hisar Dabwali Package 1	913	115	165
Phagwara Rupnagar Project	910	38	54

Source: Company

Credit rating – highest rating in the peer group

Excluding L&T, GRIL, KPTL and PNC have AA credit rating, which is two notches below AAA. We believe this makes these companies avail lowest cost funds vs peers and also signals at the general tendency of the companies being debt averse. High credit rating may also result in borrowing at lowest rate finance for working capital, equipment finance, non fund based limits, underconstruction term loans, etc. This leads to sizeable interest cost savings for the company and, thus, higher profits. High credit rating, low cost of capital give companies like GRIL a broader access to financial liabilities pool. GRIL is borrowing from multiple sources like banks, mutual funds, clients, etc., and does it at the lowest cost vs peers. Not all infra companies will get access to this broader financial pool and GRIL stands to benefit as it may monetise (synthetic) its HAM assets through top-up loans and yet retain the option of monetisation of the same, once interest rates reverse.

	FY19	**FY20**	**FY21**
GR Infra	CARE AA-/Positive	CARE AA-/Positive	CRISIL AA/Stable
Larsen & Toubro	CRISIL AAA/Stable	CRISIL AAA/Stable	CRISIL AAA/Stable
KEC International	ICRA AA-/Stable	ICRA AA-/Stable	ICRA AA-/Stable
Dilip Buildcon	CRISIL A/Stable	CRISIL A/Stable	CRISIL A/Stable
PNC Infratech	CARE AA-/Stable	CARE AA-/Stable	CARE AA/Stable
KNR Constructions	CRISIL AA-/Stable	CRISIL BBB+/Stable	CRISIL AA-/Positive
Kalpataru Power Transmission	CRISIL AA/Stable	CRISIL AA/Stable	CRISIL AA/Stable
IRB Infrastructure	CRISIL A+/Positive	CRISIL A+/Stable	CRISIL A/Stable
NCC	ICRA A	ICRA A-/Negative	ICRA A/Stable
Ashoka Buildcon	CRISIL AA-/Stable	CRISIL AA-/Stable	CRISIL AA-/Stable
Ahluwalia Contracts	CARE A+/Stable	CARE A+/Stable	CARE A+/Stable
HG Infra Engineering	ICRA A	ICRA A	ICRA A/Stable
JMC Projects	CARE A+/Stable	CARE A+/Stable	CARE A+/Stable

Source: Credit rating agencies

One of the Big Four firms as statutory auditor – gives comfort, valuation premium

GRIL has a long history of having one of the 'Big Four' firms as a statutory auditor - BSR & Associate (KPMG) – for the past 10 years. It is now awaiting shareholder approvals for appointing SRBC & Co LLP (E&Y) as the auditor.

Company	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
GR Infra	Haribhakti & Co	BSR & Associates	BSR & Associates	BSR & Associates	BSR & Associates	BSR & Associates	BSR & Associates	BSR & Associates	BSR & Associates	BSR & Associates	BSR & Associates
Larsen & Toubro	Sharp & Tannan	Sharp & Tannan	Sharp & Tannan	Sharp & Tannan	Sharp & Tannan	Sharp & Tannan and Deloitte Haskins & Sells LLP	Sharp & Tannan and Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP
Siemens	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S R B C & CO LLP	S R B C & CO LLP	S R B C & CO LLP	S R B C & CO LLP	B S R & Co. LLP	B S R & Co. LLP	
ABB India	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	B S R & Co. LLP	B S R & Co. LLP	B S R & Co. LLP	B S R & Co. LLP	
Cummins	PwC	PwC	PwC	PwC	PwC	S R B C & CO LLP	S R B C & CO LLP	S R B C & CO LLP	S R B C & CO LLP	S R B C & CO LLP	S R B C & CO LLP
KEC International	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	PwC	PwC	PwC	PwC
Dilip Buildcon							Mukund M. Chitale & Co and Naresh Rajani & Co.	Mukund M. Chitale & Co and MSG & Associates	Mukund M. Chitale & Co and MSG & Associates	Mukund M. Chitale & Co and MSG & Associates	Mukund M. Chitale & Co and MSG & Associates
PNC Infratech					Purushottam Agrawal & Co and S.S Kothari Mehta & Co	Purushottam Agrawal & Co and S.S Kothari Mehta & Co	Purushottam Agrawal & Co and S.S Kothari Mehta & Co	S.S Kothari Mehta & Co	S.S Kothari Mehta & Co	S.S Kothari Mehta & Co	S.S Kothari Mehta & Co
KNR Constructions	M/s Sukumar Babu & Co	M/s Sukumar Babu & Co	M/s Sukumar Babu & Co	M/s Sukumar Babu & Co	M/s Sukumar Babu & Co	M/s Sukumar Babu & Co	M/s Sukumar Babu & Co	K P Rao & Co	K P Rao & Co	K P Rao & Co	K P Rao & Co
Kalpataru Power Transmission	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	Deloitte Haskins & Sells LLP	B S R & Co. LLP	B S R & Co. LLP	B S R & Co. LLP
IRB Infrastructure	S.R. Batliboi & Co LLP	S.R. Batliboi & Co LLP	S.R. Batliboi & Co LLP	S.R. Batliboi & Co LLP	S.R. Batliboi & Co LLP	S.R. Batliboi & Co LLP and Gokhale & Sathe	S.R. Batliboi & Co LLP and Gokhale & Sathe	B S R & Co. LLP and Gokhale & Sathe	B S R & Co. LLP and Gokhale & Sathe	B S R & Co. LLP and Gokhale & Sathe	B S R & Co. LLP and Gokhale & Sathe
NCC	M. Bhaskara Rao & Co and Deloitte Haskins & Sells LLP	M. Bhaskara Rao & Co and Deloitte Haskins & Sells LLP	M. Bhaskara Rao & Co and Deloitte Haskins & Sells LLP	M. Bhaskara Rao & Co and Deloitte Haskins & Sells LLP	M. Bhaskara Rao & Co and Deloitte Haskins & Sells LLP	M. Bhaskara Rao & Co and Deloitte Haskins & Sells LLP	M. Bhaskara Rao & Co and Deloitte Haskins & Sells LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP	S.R. Batliboi & Associates LLP
Ashoka Buildcon	M. P. Chitale & Co	M. P. Chitale & Co	M. P. Chitale & Co	M. P. Chitale & Co	M. P. Chitale & Co	M. P. Chitale & Co	M. P. Chitale & Co	S R B C & CO LLP	S R B C & CO LLP	S R B C & CO LLP	S R B C & CO LLP
Ahluwalia Contracts	Arun K Gupta & Associates	Arun K Gupta & Associates	Arun K Gupta & Associates	Arun K Gupta & Associates	Arun K Gupta & Associates	Arun K Gupta & Associates	Arun K Gupta & Associates	Amod Agrawal& Associates	Amod Agrawal& Associates	Amod Agrawal& Associates	Amod Agrawal& Associates
HG Infra Engineering									PwC	PwC	PwC
JMC Projects	Kishan M Mehta & Co	Kishan M Mehta & Co	Kishan M Mehta & Co	Kishan M Mehta & Co	Kishan M Mehta & Co	Kishan M Mehta & Co	B S R & Co. LLP	B S R & Co. LLP	B S R & Co. LLP	B S R & Co. LLP	B S R & Co. LLP

Source: Company Annual Reports

Auditor remuneration

GRIL's auditor remuneration is in line with peers that don't have any of the 'Big Four' firms as auditors. The increasing oversight by various regulators, fraud reporting requirements under CARO, governance reporting requirement under business responsibility and sustainability reporting will make it paramount for all infra companies to strengthen regulatory and internal reporting. Strong emphasis on ESG and corporate governance will be the key matrix, which investors will look for in their decision-making. We believe GRIL has a history with one of the Big Four auditors on board and will be an early mover in adoption of best practices. Other peers should take a leaf from its book and think on more medium to long term basis about continuous improvement and best practices adoption.

(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21
GR Infra	2.7	3.1	4.0	3.6	4.4	4.4
Larsen & Toubro	44.0	53.3	48.8	60.0	58.4	61.1
KEC International	20.5	21.5	20.5	22.3	25.2	29.8
Dilip Buildcon	3.6	6.1	6.7	5.6	6.5	6.0
PNC Infratech	4.6	4.0	3.1	3.1	2.9	3.1
KNR Constructions	0.5	0.5	1.3	1.3	1.6	1.7
Kalpataru Power Transmission	9.0	10.0	10.3	11.5	13.0	14.6
IRB Infrastructure	5.4	5.2	6.7	7.1	7.6	22.6
NCC	19.2	18.9	13.1	17.2	16.7	14.8
Ashoka Buildcon	5.7	6.6	8.5	9.8	13.4	12.6
Ahluwalia Contracts	2.6	2.5	2.6	2.6	3.4	3.3
HG Infra Engineering			7.9	5.7	6.6	9.4
JMC Projects	4.2	6.4	6.8	9.3	10.3	11.4

Source: Company Annual Reports

ESOP policy – way to reward employees and attract talent

The industrials sector peers have shyed away from keeping an ESOP policy in place. There could be perception issues which have led to this; it may pertain to the nature of the job, which is largely blue collared, and the sector being highly cyclical, which makes it difficult to price in the compensation (linkages to share prices) or lack of understanding amongst the recipient. In the current context, wherein peers are looking at diversifying and may have to compete with the other services industry firms (like IT, media, banking, etc.) for attracting talent, ESOPs will play the key role. GRIL and L&T seem to be only players in our coverage universe that have ESOP policies in place. We believe, over time, other peers will also adopt these policies so as to attract and retain talent. The players will need to reinvent themselves from being contracting companies to becoming engineering companies with strong design, engineering, procurement, and execution capabilities. The entire ecosystem is getting more automated, mechanised, globally financed and developers will have to scale up human capital significantly to take the leap into the next leg of growth.

Company	ESOP Policy? (Yes/No)
GR Infra	Yes
Larsen & Toubro	Yes
KEC International	No
Dilip Buildcon	No
PNC Infratech	No
KNR Constructions	No
Kalpataru Power Transmission	No
NCC	No
Ashoka Buildcon	No
Ahluwalia Contracts	No
HG Infra Engineering	No
JMC Projects	No

Source: Company Annual Reports

Promoter group compensation

GRIL's promoter group's FY21 compensation is in line with the peers' as a percentage of standalone PBT. In earlier years, it had been high, when the company was unlisted and was reinvesting profits for growth. GRIL's compensation to promoter group also declined due to the FY20/21 COVID-19 impact.

Standalone (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21
GR Infra	89	169	280	886	715	421
% PBT	*5.8%*	*3.7%*	*5.9%*	*10.7%*	*7.1%*	*3.9%*
Ashoka Buildcon	94	99	107	133	167	154
% PBT	*3.8%*	*4.6%*	*3.7%*	*3.2%*	*3.1%*	*2.8%*
Dilip Buildcon		244	382	382	382	382
% PBT		*6.8%*	*5.8%*	*4.7%*	*6.6%*	*7.6%*
KNR Construction	37	61	85	98	138	172
% PBT	*2.8%*	*3.7%*	*3.2%*	*3.4%*	*4.7%*	*4.5%*
PNC Infratech	60	67	61	65	238	329
% PBT	*3.1%*	*3.4%*	*2.6%*	*1.9%*	*3.9%*	*5.9%*
HG Infra	48	63	46	43	43	46
% PBT	*10.5%*	*7.5%*	*3.9%*	*2.3%*	*1.9%*	*1.6%*
KEC International	9	37	58	63	63	85
% PBT	*0.3%*	*0.9%*	*0.9%*	*0.9%*	*0.8%*	*0.9%*
Kalpataru Power Transmission	103	25	178	224	289	353
% PBT	*3.5%*	*0.6%*	*3.6%*	*3.6%*	*4.3%*	*4.2%*

Source: Company Annual Reports

Asset monetisation – multiple options – equity take out, asset monetisation to investors, own InVIT

GRIL enjoys a huge competitive advantage vs. peers in a sector that is considered opaque. This competence is difficult to earn and has been built over many years with very few infra companies being able to replicate it. It has built a net worth of INR 36bn with fund raise contributing INR 800mn (~2.2% of networth); additionally, it has a HAM equity investment of INR 11bn from internal accruals, best credit rating achieved through a robust balance sheet and efficient capital allocation, and the absence of unnecessary diversification. Moreover, it sticks to a conservative and transparent way of doing business. These traits have allowed it to build a strong execution franchise and high quality road assets. It is now coming in handy when the HAM assets are achieving their provisional commercial operation dates (PCOD) and are ready for monetisation.

Strategy to capture asset monetisation value from inception to concession expiry

GRIL intends to capture the entire value of the HAM asset monetisation, right from EPC revenue to refinancing/top-up loans and finally taking these assets to an InVIT. Post COD, the value will also be captured from the O&M order book generated from these assets at robust profitability. To capture this lifecycle value for its shareholders, GRIL has multiple legs to its monetisation journey.

Stage 1 – capturing EPC margins during the HAM projects development phase

GRIL bids for EPC and HAM national highways projects. While EPC projects are cash contracts, HAM projects require investment in equities. GRIL wins these projects through the competitive bidding process of the NHAI. To compensate for the equity investments, typically HAM projects are bid more conservatively and GRIL enjoys better EBITDA margins vs similar projects bid out in high competitive scenario under the EPC mode. This is operational value capture. During the execution period, GRIL saves finance costs through capital optimisation, borrowing from banks/NCD at lower rates, non-availment of higher interest mobilisation advance and, as far as possible, investing through internal accruals to complete projects rather than taking project finance disbursement during the earlier stages of construction. This helps reduce costs and generate additional surplus/savings/profits for the SPV, which may help it get better credit rating/interest rate/valuation at the time of top-up loans or asset monetisation.

Stage 2 – operational projects equity recylcing, yet retaining valuation upside

Once the HAM projects are operational or achieve PCOD, GRIL applies for credit rating upgrade to AAA. Once operational, the HAM projects have no execution risks and since the projects related payments are done by the NHAI, which is an AAA rated entity, the SPV credit rating can be assigned AAA. GRIL, in one of the recent transactions, got the Varanasi-Handia HAM project AAA rated and took out INR1.75bn top-up at 6.8% interest rate. This is ~70% of the of the total equity invested of INR2.5bn. The company may replicate this for other projects that have COD. As a portfolio, we expect GRIL to take out 50% of the invested equity as a top-up loan. The players in the top-up lending market include mutual funds, banks and other financial institutions. There is yield spread of 200bps for the large cap AAA bond issuers and AAA rated mid cap issuers like GRIL, though both have similar risk profiles. We do see a case of further reduction in top-up finance towards sub 6.5% for issuers like GRIL. Though this market is low cost, it is not accessible to a large part of the HAM monetisation/top-up/other infra developers. This part monetisation strategy works well for GRIL, as these loans are linked to repo rates and banks also lend on repo rate basis; hence, the spread risk reduces if interest rates change. Even the NHAI payment to developers on HAM project is linked to bank rates, which are linked to repo rates. In case the interest rates increase, GRIL will benefit as HAM projects valuation will increase and, hence, in this top-up loan arrangement, it has retained the equity upside accruing on account of interest rate reversals. We expect the company to take up top-up loans to the extent of 50% of the equity invested, which works out to a cumulative INR 15.5bn takeout at 50% of the HAM inflow over the FY22-24E. In our financial estimates, we have not factored in any monetisation for now, but we will incorporate the same as and when it materialises.

Stage 2 - Monetisation expectation	Cumulative FY22-24E (INR mn)
@50% HAM projects win over FY22-24E	15,500
@60% HAM projects win over FY22-24E	16,200
@75% HAM projects win over FY22-24E	17,250

Source: HSIE Research

Stage 3 – size of the portfolio becomes InVIT-able

Once the HAM portfolio achieves a substantial mass, it becomes InVIT-able; GRIL may look at doing its own InVIT through a captive platform. This will entail tax benefits, better valuation, accrual of O&M order book, equity recycling and capital light way of building out new assets. This shall be the final leg of value recapture by GRIL, through significant minority stake sale in the InVIT. The InVIT market in India has started picking up pace and credible players like GRIL stand to benefit as a large part of the execution risk is over once the project becomes operational. Secondly, with GRIL's high focus on quality, O&M outgo may be well within budgeted provisions. We have modeled for 50:50 HAM/EPC projects order wins cumulatively over FY22-24E and expect GRIL to realise around INR 11.3bn through the InVIT stake sale. We have worked on sensitivity; if the HAM mix increases to 75% in the inflow, GRIL may realise INR 13.1bn through the InVIT stake sale.

Stage 3 -Monetisation expectation	FY24E- Cumulative equity invested (INR mn)	% Stake sale	P/BV (x)	Valuation of HAM (INR mn)	Monetisation proceeds (INR mn)
@50% HAM projects win over FY22-24E	34,875	25%	1.3	45,338	11,334
@60% HAM projects win over FY22-24E	37,050	25%	1.3	48,165	12,041
@75% HAM projects win over FY22-24E	40,313	25%	1.3	52,406	13,102

Source: HSIE Research

Strong management bandwidth – scalability not an issue

In the table below, we highlight the promoter family members in the active management of GRIL. Experience-heavy leaders like Vinod/Ajendra Kumar Agarwal and third generation young members like Lokesh, Archit, Ashwin and Aditya form the management team. With 11 family members (with varied experience) actively involved in the business, bandwidth and scalability is not a challenge. GRIL is currently focusing on roads, railways and metros; going ahead, the calibrated diversification will be driven by the collective bandwidth of the top leadership, which will be actively supported by technocrat and professional senior management personnel.

S.No	Management	Experience	Designation	Roles and Responsibilities
1	Vinod Kumar Agarwal	More than 40 Years	Executive Chairman	Overall
2	Ajendra Agarwal	More than 30 years	Managing Director	
3	Devki Nandan Agarwal	More than 40 years	President (Plant & Equipments)	
4	Mahendra Kumar Agarwal	More than 30 years	President (Procurement)	
5	Pankaj Agarwal	More than 22 years	Director Operations	Looks after the Project Execution. At a time looks after multiple projects. Along with this also looks after the Safety aspect as well as leads the O&M activities of the entire Company.
6	Vikas Agarwal	More than 15 years	Whole time Director	Looks after the Project Execution. At a time looks after multiple projects. Along with this also looks after the Stores and IT function of the company.
7	Lokesh Agarwal	More than 8 years	Director Operations	Looks after the Project Execution. At a time looks after multiple projects.
8	Manish Gupta	More than 20 years	Director Operations	Looks after the Project Execution. At a time looks after multiple projects. Along with this also looks Central planning and monitoring and Quality aspect at the company
9	Archit Agarwal	More than 5 years	Director Operations	Railways
10	Ashwin Agarwal	More than 1 year	Director Operations	Head of Operation certain road projects under guidance of other DOs. DO's are the supreme authority/ decision maker for any particular project assigned to them.
11	Aditya Agarwal	More than 2 years	Director Operations	Head of Operation certain road projects under guidance of other DOs. DO's are the supreme authority/ decision maker for any particular project assigned to them.

Source: Company, HSIE Research

Comparitive analysis

We have carried out a peer comparison as a ratio or per unit of GRIL as a variable. We have included our entire coverage universe, including large EPC companies, for better comparison. In the tables below, we highlight our findings.

GRIL has better revenue visibilty than most peers, given the strong order book

Order book (>1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	0.7	0.9	0.4	0.7	0.5	0.4	0.4	0.4	0.6
Dilip Buildcon	1.8	2.2	1.8	1.7	1.2	1.4	1.3	1.2	1.5
KNR Construction	0.6	0.5	0.5	0.5	0.4	0.6	0.5	0.5	0.5
PNC Infratech	0.9	1.1	0.8	1.0	0.8	0.9	0.8	0.8	1.0
HG Infra	0.2	0.5	0.3	0.5	0.4	0.4	0.4	0.4	0.5
Ahluwalia	0.6	0.4	0.2	0.5	0.5	0.4	0.3	0.3	0.3
PSP	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capacite	0.5	0.5	0.4	0.6	0.6	0.5	0.4	0.3	0.4
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)		1.1	0.9	1.1	0.8	0.7	0.6	0.5	0.6
JMC (S)	1.0	0.9	0.6	0.8	0.6	0.7	0.7	0.6	0.7
KEC (C)		1.6	1.3	1.6	1.2	1.0	0.8	0.7	0.9
KPTL (C)*		2.0	1.5	1.9	1.4	1.4	1.3	1.2	1.3
LT (Std.+ Hydrocarbon)	40.8	32.7	19.8	23.0	18.5	17.2	15.3	13.8	15.4

Source: Company, HSIE Research *KPTL (C) = KPTL standalone + JMC standalone

GRIL has better gross contribution than most peers

The notable point here is that GRIL is narrowing the gross profit gap with Dilip Buildcon (DBL), despite having a lower order book and revenue vs DBL. This is largely on account of better gross margins. KPTL is close to it while KEC is ahead. LT and KEC cannot be compared as they are much larger in size and revenues.

Gross Contribution (>1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	1.2	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4
Dilip Buildcon	3.1	1.7	2.1	1.4	1.1	1.2	1.0	1.0	1.0
KNR Construction	0.7	0.4	0.6	0.5	0.5	0.6	0.6	0.5	0.5
PNC Infratech	1.5	0.6	0.7	0.7	0.9	0.9	0.8	0.8	0.8
HG Infra	0.4	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Ahluwalia	1.0	0.5	0.5	0.3	0.2	0.2	0.3	0.3	0.2
PSP	0.2	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1
Capacite	0.6	0.5	0.5	0.3	0.3	0.2	0.2	0.3	0.2
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	4.0	2.1	2.1	1.3	1.2	1.3	1.1	1.1	1.0
JMC (S)	1.7	0.8	0.9	0.5	0.5	0.5	0.5	0.5	0.5
KEC (C)	7.1	3.7	3.6	2.1	2.1	2.1	1.8	1.8	1.8
KPTL (C)	5.7	2.9	3.0	1.9	1.7	1.8	1.5	1.5	1.5
LT (Std.+ Hydrocarbon)	45.5	22.7	24.0	12.4	10.6	10.5	9.1	8.8	8.3

Source: Company, HSIE Research

Given the margin, GRIL has scope to gain market share

In the roads segment, only KNR is better than GRIL in terms of EBITDA margin. This is on account of KNR having better-margin irrigation projects and higher share of HAM projects. Most of the well-diversified companies have lower EBITDA margins than GRIL's. Road ordering in HAM is an equity-intensive investment and, hence, the EBIDTA margins are better. GRIL, while pursuing the path to diversification, may remain selective on the bidding front so as to not compromise on margins and balance sheet health. If need be, in case of low project awards, GRIL may look at gaining market share by reducing the margin threshold. The company will not compromise its balance sheet to achieve higher top-line growth.

EBITDA Margin (>1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	1.3	0.7	0.7	0.7	0.7	0.9	0.7	0.7	0.7
Dilip Buildcon	1.6	1.0	0.9	0.9	0.8	1.1	0.9	0.9	0.9
KNR Construction	1.5	0.9	1.1	1.0	1.1	1.3	1.2	1.1	1.1
PNC Infratech	1.2	0.8	0.8	0.7	0.8	0.9	0.8	0.8	0.8
HG Infra	1.0	0.7	0.8	0.8	0.8	1.0	0.9	0.9	0.9
Ahluwalia	1.2	0.7	0.7	0.6	0.4	0.5	0.7	0.7	0.7
PSP	0.8	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Capacite	1.2	1.0	0.8	0.7	0.9	1.0	0.9	0.9	0.9
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	1.0	0.6	0.6	0.5	0.6	0.7	0.6	0.6	0.6
JMC (S)	0.8	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6
KEC (C)	0.7	0.6	0.6	0.5	0.5	0.6	0.5	0.5	0.6
KPTL (C)	0.9	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6
LT (Std.+ Hydrocarbon)	0.8	0.6	0.6	0.4	0.4	0.6	0.6	0.5	0.5

Source: Company, HSIE Research

With higher depreciation charges, earnings quality of GRIL is better than peers'

When compared to roads peers, GRIL follows a conservative depreciation expense with only KNR being more conservative (in the past years due to irrigation exposure, wherein the depreciation rates are much higher vs roads). JMC and KPTL are the other companies that follow conservative depreciation policies.

Depreciation as % Gross Block (>1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	1.2	1.1	1.0	0.9	1.1	0.9	0.9	1.0	1.0
Dilip Buildcon	1.0	0.8	0.8	0.7	0.8	0.8	0.7	0.7	0.7
KNR Construction	0.8	0.8	1.5	1.3	1.3	0.9	0.7	0.8	0.8
PNC Infratech	1.4	0.9	1.2	0.9	1.0	0.8	0.8	0.9	0.9
HG Infra	1.4	1.1	1.2	1.0	0.8	0.9	0.8	0.9	1.1
Ahluwalia	0.6	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5
PSP	1.1	0.7	0.9	1.2	1.1	0.9	0.8	1.0	1.1
Capacite	0.7	1.5	1.2	1.1	1.0	0.7	0.8	0.9	0.8
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	1.3	0.9	0.9	0.8	0.9	0.8	0.8	1.0	1.0
JMC (S)	1.0	1.0	1.1	0.9	1.1	1.2	1.2	1.2	1.2
KEC (C)	0.8	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6
KPTL (C)	1.3	1.0	1.0	0.8	1.0	1.0	1.0	1.1	1.1
LT (Std.+ Hydrocarbon)	0.9	1.0	0.9	0.7	0.6	0.6	0.6	0.6	0.6

Source: Company, HSIE Research

Asset turnover is better than for most of its peers

GRIL scores higher than high-capex similar road EPC peers in asset turnover. There are peers that follow asset light subcontracting models and largely bring in expertise as project managers; these have higher asset turns and lower EBITDA margins due to asset hiring/higher subcontract expenses. Other peers own/buy equipments and enjoy better EBITDA margins, which is also reflected in higher depreciation expenses. Own equipment helps in better equipment availability, higher productivity, lower reliance on labour, and better net margins.

Gross block asset turnover ratio (>1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	1.6	0.8	1.3	1.3	1.2	1.6	1.6	1.6	1.6
Dilip Buildcon	0.5	0.3	0.7	0.7	0.6	0.6	0.7	0.7	0.8
KNR Construction	0.5	0.4	0.6	0.5	0.5	0.6	0.6	0.6	0.7
PNC Infratech	1.2	0.6	0.8	0.9	1.3	1.2	1.3	1.4	1.4
HG Infra	1.6	0.7	0.7	0.8	0.8	1.0	1.1	1.1	1.3
Ahluwalia	0.9	0.5	0.9	0.9	0.9	1.0	1.1	1.1	1.2
PSP	1.6	0.7	1.6	1.5	1.9	1.5	1.6	1.7	1.6
Capacite	0.8	0.4	0.7	0.6	0.4	0.3	0.5	0.6	0.6
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	1.8	1.1	2.0	2.0	2.2	1.8	2.3	2.4	2.5
JMC (S)	1.6	0.8	1.3	1.2	1.1	1.1	1.2	1.3	1.3
KEC (C)	1.4	0.8	1.6	1.6	1.6	1.8	1.9	1.9	1.9
KPTL (C)	1.7	1.0	1.7	1.7	1.7	1.5	1.7	1.8	1.9
LT (Std.+ Hydrocarbon)	2.0	1.1	2.0	1.8	1.8	1.7	1.6	1.8	1.8

Source: Company, HSIE Research

Of late, peers seem to better manage their working capital – but there is a catch

GRIL has elevated NWC days vs peers on account of carrying higher inventory days in the balance sheet and low reliance on creditors funding its operations. GRIL debtor and other current assets days are better than peers, whilst current and other current liabilities days are lower vs peers. This is done so as to maximise profitability though this may result in elevated NWC days and higher standalone debt vs peers. If the company had availed the entire mobilisation advance from NHAI, it would have been net cash positive and NWC days would have reduced to ~30-35. In turn, GRIL would have lost on profitability on account of higher raw material prices and on higher outgo on interest.

Net Working Days (<1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	1.7	0.8	0.1	0.4	0.2	0.4	0.5	0.5	0.5
Dilip Buildcon	3.8	2.7	1.1	1.4	1.4	1.2	1.3	1.3	1.4
KNR Construction	0.8	-0.0	0.3	0.6	0.7	0.8	0.6	0.6	0.8
PNC Infratech	2.3	2.5	1.2	1.1	0.9	0.8	1.0	1.1	1.1
HG Infra	1.3	1.1	1.0	1.1	1.2	0.7	0.7	0.7	0.7
Ahluwalia	2.0	1.2	0.6	0.8	1.0	0.6	0.7	0.9	1.0
PSP	-1.6	-0.5	0.1	0.4	0.4	0.2	0.3	0.3	0.4
Capacite	1.5	1.1	0.7	0.9	1.1	1.5	0.9	0.8	0.9
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	3.3	2.3	1.4	1.5	1.7	1.4	1.6	1.7	1.7
JMC (S)	2.3	2.0	1.0	1.1	0.7	0.6	0.6	0.8	0.9
KEC (C)	3.9	2.5	1.5	1.4	1.5	1.2	1.4	1.6	1.6
KPTL (C)	2.6	2.5	1.5	1.3	1.5	1.1	1.3	1.4	1.4
LT (Std.+ Hydrocarbon)	2.1	1.2	0.5	0.6	0.8	0.7	0.8	0.9	0.9

Source: Company, HSIE Research

GRIL has more robust collection efficiency than peers

GRIL has a superior collection efficiency vs peers. This is on account of large single-segment exposure to the roads sector, which is funded by the NHAI (which makes timely payments). Most of the other diversified players have higher debtor days. GRIL's debtor days would have been still lower but for the HAM SPV debtors wherein the company deliberately has higher collection period. HAM projects term loans carry higher interest costs (underconstruction and delay risks) vs GRIL's standalone borrowing costs. GRIL funds a large part of its execution from the NHAI grant and internal accruals, so as to save interest costs on high-cost HAM project debt.

Debtors days (<1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	1.5	1.4	1.7	1.9	2.4	2.5	2.2	2.2	2.2
Dilip Buildcon	1.7	1.2	0.9	0.9	1.0	1.0	1.0	1.2	1.2
KNR Construction	1.1	0.6	0.6	0.6	1.5	2.6	1.6	1.4	1.4
PNC Infratech	1.4	2.2	1.8	1.1	1.2	1.4	1.3	1.3	1.3
HG Infra	1.0	0.6	1.0	1.3	2.1	1.4	1.6	1.6	1.6
Ahluwalia	3.3	2.1	1.8	2.3	2.6	2.2	1.9	1.8	1.8
PSP	0.2	0.8	0.8	0.8	1.1	1.5	1.2	1.2	1.2
Capacite	2.4	1.9	1.5	1.7	1.8	2.6	1.9	1.9	1.9
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	3.9	3.5	2.8	2.7	3.3	4.1	3.6	3.6	3.6
JMC (S)	2.1	1.7	1.3	1.6	1.8	2.1	1.8	1.8	1.8
KEC (C)	4.1	3.0	2.4	2.5	3.3	3.4	3.3	3.3	3.3
KPTL (C)	3.3	2.9	2.3	2.3	2.8	3.4	3.0	3.0	3.0
LT (Std.+ Hydrocarbon)	2.0	1.6	1.4	1.7	2.1	2.8	2.5	2.6	2.6

Source: Company, HSIE Research

GRIL has higher inventory days vs peers

GRIL has higher inventory days vs peers. Whilst this helps in ahead-of-schedule project completion and qualifying for the early completion bonus and other savings like interest during construction, etc., the cost is deterioration in the working capital. With the shortening of the HAM project completion timelines by the NHAI, bonus eligibility is likely to reduce and, consequently, developers' incentive to hold higher inventory days may subside, which may lead to improvement in NWC.

Inventory days (<1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	-	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Dilip Buildcon	4.3	4.1	1.8	2.2	2.3	2.2	1.9	1.6	1.6
KNR Construction	0.4	0.5	0.2	0.4	0.4	0.4	0.4	0.3	0.3
PNC Infratech	1.3	1.1	0.7	1.1	0.4	0.5	0.6	0.6	0.6
HG Infra	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Ahluwalia	1.8	2.1	0.8	1.0	0.9	1.0	0.9	0.9	0.9
PSP	0.1	0.1	0.3	0.6	0.5	0.5	0.5	0.5	0.5
Capacite	2.7	1.9	1.1	0.4	0.5	0.8	0.4	0.4	0.4
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	1.1	1.1	0.6	0.7	0.7	0.5	0.7	0.7	0.7
JMC (S)	0.7	1.0	0.5	0.6	0.5	0.4	0.5	0.5	0.5
KEC (C)	0.5	0.6	0.4	0.5	0.5	0.4	0.5	0.4	0.5
KPTL (C)	0.9	1.1	0.5	0.7	0.7	0.5	0.6	0.6	0.6
LT (Std.+ Hydrocarbon)	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2

Source: Company, HSIE Research

GRIL scores better on other currents assets

GRIL scores much higher vs peers on other current assets, after losing out on inventory.

Other Current asset days (<1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	-	3.5	1.7	1.1	1.0	1.0	1.4	1.5	1.5
Dilip Buildcon	1.4	1.4	1.1	1.1	1.4	1.1	1.3	1.4	1.5
KNR Construction	2.1	1.4	1.3	1.3	1.6	1.2	1.3	1.4	1.5
PNC Infratech	0.8	1.3	1.3	1.0	1.0	1.1	1.0	1.1	1.2
HG Infra	0.7	1.0	2.0	1.1	1.8	1.3	0.9	0.9	0.8
Ahluwalia	0.2	0.3	0.1	0.1	1.0	1.2	0.9	1.0	1.1
PSP	0.3	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Capacite	0.5	0.6	1.0	1.4	2.5	4.0	2.1	1.9	1.9
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	1.9	1.8	2.1	2.0	2.5	2.2	2.4	2.5	2.6
JMC (S)	2.0	2.4	2.4	2.0	2.2	2.1	1.7	1.9	1.9
KEC (C)	1.7	2.0	1.7	1.9	2.2	2.1	2.2	2.3	2.4
KPTL (C)	1.9	2.6	2.8	2.3	2.4	2.3	2.4	2.5	2.6
LT (Std.+ Hydrocarbon)	3.6	3.6	3.2	2.6	3.5	3.1	3.6	3.9	4.0

Source: Company, HSIE Research

GRIL payment terms to creditiors better than peers – scope to improve NWC

Most of the peers have higher payable days vs. GRIL. Though this may aid their NWC, however, in a way, they are borrowing from the supply chain/client mobilisation advance and has costs associated to it either in terms of higher raw material prices or interest payments on extended credit days. GRIL's better payment terms help it save interest costs and get better pricing for raw material, which in turn aids profitability.

Payable days (>1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	-	4.0	2.3	2.2	1.9	1.7	2.1	2.1	2.1
Dilip Buildcon	3.0	2.5	1.9	1.8	2.0	2.2	2.3	2.3	2.4
KNR Construction	1.4	1.2	1.0	1.0	1.2	0.9	0.9	0.9	0.9
PNC Infratech	0.5	2.0	2.5	1.5	1.0	1.4	0.9	0.9	0.9
HG Infra	0.8	1.2	1.9	1.6	2.6	1.6	1.7	1.7	1.6
Ahluwalia	2.8	3.5	2.2	2.3	3.0	3.4	2.5	2.3	2.1
PSP	1.8	2.4	1.6	1.3	1.3	1.9	1.9	1.8	1.8
Capacite	4.3	3.9	3.2	2.8	3.9	4.6	3.4	3.0	3.0
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	4.5	5.6	3.9	3.6	3.4	3.7	3.6	3.6	3.6
JMC (S)	3.3	4.5	2.9	3.4	3.3	3.4	2.9	2.9	2.9
KEC (C)	4.9	6.4	4.2	5.2	5.8	5.0	5.5	5.2	5.2
KPTL (C)	4.1	5.2	3.6	3.5	3.4	3.6	3.3	3.3	3.3
LT (Std.+ Hydrocarbon)	4.0	4.9	3.9	3.9	4.4	4.5	4.9	4.9	4.9

Source: Company, HSIE Research

Same trend on other current liabilities - cost is higher NWC

We can observe the same trend in other current liabilities, wherein GRIL has lower other current liabilities ratio vs peers.

Other current liabilities days (<1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	-	2.1	2.9	1.7	3.0	3.2	2.6	2.5	2.5
Dilip Buildcon	0.8	1.0	0.9	0.8	1.5	1.2	0.8	0.6	0.5
KNR Construction	1.6	1.5	1.2	1.1	2.5	3.5	2.7	2.2	2.0
PNC Infratech	0.7	0.8	0.7	0.8	0.8	1.1	1.0	1.0	1.0
HG Infra	0.5	0.4	1.0	0.4	1.1	1.7	1.0	0.9	0.9
Ahluwalia	0.9	0.9	0.8	0.7	1.3	1.6	1.2	1.2	1.0
PSP	0.6	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.1
Capacite	0.6	0.7	0.8	0.8	1.1	3.8	1.3	1.2	1.2
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	0.9	1.2	1.4	1.4	2.3	2.6	2.6	2.4	2.5
JMC (S)	0.6	0.6	1.2	1.0	1.9	2.5	1.8	1.5	1.3
KEC (C)	0.1	0.1	0.1	0.0	0.1	0.3	0.0	0.0	0.0
KPTL (C)	1.1	1.3	1.6	1.7	2.0	3.1	2.6	2.4	2.4
LT (Std.+ Hydrocarbon)	1.6	1.7	2.1	2.1	2.9	3.9	3.4	3.2	3.2

Source: Company, HSIE Research

GRIL has better return on invested capital than almost all the peers

GRIL has better RoIC vs peers except KNR, which has slighlty higher RoIC.

RoIC (>1, better than GR)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Ashoka Buildcon	1.6	0.5	1.0	0.8	0.6	0.9	0.7	0.6	0.6
Dilip Buildcon	0.9	0.4	0.8	0.7	0.5	0.7	0.6	0.6	0.6
KNR Construction	1.6	1.0	1.5	0.9	0.9	1.2	1.2	1.2	1.0
PNC Infratech	1.3	0.3	0.5	0.6	1.0	0.9	0.9	0.8	0.8
HG Infra	0.8	0.4	0.5	0.5	0.7	1.3	1.2	1.1	1.0
Ahluwalia	0.8	0.5	0.8	0.7	0.4	0.7	0.9	0.8	0.7
PSP	2.6	1.4	1.2	0.9	1.2	1.0	1.0	0.9	0.9
Capacite	1.4	0.6	0.6	0.5	0.5	0.1	0.4	0.6	0.6
GR Infra	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
KPTL (S)	1.1	0.3	0.6	0.5	0.6	0.7	0.6	0.6	0.5
JMC (S)	0.5	0.2	0.5	0.5	0.6	0.5	0.6	0.6	0.7
KEC (C)	0.6	0.2	0.5	0.5	0.6	0.7	0.5	0.6	0.6
KPTL (C)	0.5	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.5
LT (Std.+ Hydrocarbon)	0.4	0.2	0.5	0.4	0.3	0.4	0.4	0.4	0.3

Source: Company, HSIE Research

Management details

- **Mr Vinod Kumar Agarwal** is the Chairman and Whole Time Director on the GR board and one of the promoters of the company. He has completed his 12th standard and has over 25 years of experience in the road construction industry. He has been a director on the board since incorporation of the company and has been instrumental in its growth. He looks after strategy and policy formulation and liaises with various departments of the government and also overlooks the company's processes such as bidding, tendering and planning. He is also the president of the National Highways Builders Federation and was awarded the Excellence Award by the Hindustan Times for 'demonstrating excellence and deploying exponential strategies in their field by creating exceptional value for society' in 2016.
- **Mr Ajendra Kumar Agarwal** is the Managing Director on the board and one of the promoters. He holds a bachelor's degree in civil engineering from Jodhpur University 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 inhouse 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 the company projects. He has been a director on the board since 2006.
- **Vikas Agarwal** is a Whole Time Director on the board. He holds a bachelor's degree in commerce from Mohanlal Sukhadia University, Udaipur. He has been associated with the company since April 2006 and has 15 years of experience in the road construction industry. He is responsible for overseeing the functioning of running projects of the company. He was previously associated with the company as a director (operations).
- **Ramesh Chandra Jain** is a Whole Time Director on the board. He holds a bachelor's degree in civil engineering from Rajasthan University. He has experience of over 27 years in the roads construction business. Prior to joining our company, he was associated with the NHAI. He joined the company on 16 January 2015 and is responsible for monitoring of construction of roads, highways and bridges. He is also responsible for the bidding process for new projects.
- **Chander Khamersa** is a Non-Executive Independent Director on the board. He holds a bachelor's degree in commerce and a master's degree in business administration (executive) from the Mohanlal Sukhadia University, Udaipur. He has 21 years of experience in the jewellery industry. In addition to the company, he is currently on the board of directors of Mayura Jewels (India) Private Ltd.
- **Kalpana Gupta** is a Non-Executive Independent Director on the board. She has attended the course for a bachelor's degree in science from the University of Lucknow, a master's degree in science specialising in zoology from the University of Lucknow, and a diploma in marketing and sales management from the Institute of Productivity and Management. She is also an associate of the Indian Institute of Bankers. In addition, she has been certified by the National Institute of Securities Markets for the completion of the securities markets foundation certification examination, mutual fund distributors certification examination, and the retirement adviser certification examination. She has prior experience of over 34 years in the banking sector and was associated with Punjab National Bank as general manager. She also has been invited for speaking engagements at various public forums.

- **Rajendra Kumar Jain** is a Non-Executive Independent Director on the board. He holds a bachelor's degree in commerce from Rajasthan University, a master's degree in commerce (specialising in business administration) from Maharshi Dayanand Saraswati University, Ajmer, and a bachelor's degree in law from the University of Ajmer. He is also a fellow of the Institute of Company Secretaries of India. He currently acts as an advisor with over 25 years of experience in the fields of taxation and law. He is also the honorary secretary general of the Mewar Chamber of Commerce and Industry.
- **Desh Raj Dogra** is an Additional Director (Non-Executive Independent Director) on the board. He holds a bachelor's and a master's degree in science from Himachal Pradesh University and a master's degree in business administration from University of Delhi. He is also a certificated associate of the Indian Institute of Bankers and has over 37 years of experience in the financial sector, mainly in the areas of banking and credit rating. He was associated with Dena Bank for 15 years and retired as a managing director and chief executive officer of CARE.

Valuation – initiate with BUY with target of Rs 2,372/sh

- **Well understood hypothesis:** GRIL clicks most of the tick boxes for a typical long term investment case in a cyclical sector like infra. Parameters well accepted and understood are: (1) a strong balance sheet; (2) robust execution skills; (3) transparency and corporate governance; (4) access to capital and funding lines; and (5) likely beneficiary of long-term government Capex.
- **Thesis under development/or testing:** some of the concerns or expectations here include (1) diversification needs; (2) longevity of growth given reliance on large single segment for ordering, viz. roads; (3) asset monetisation; and (4) path to sustained growth. We believe that diversification is not a constraint, though new segment with similar profitability and payment terms are the limiting factor. GRIL may look at quality diversification so as to protect margins and balance sheet. We believe as the order size/government ordering increases and engineering capabilities become paramount, players with strong balance sheet will benefit. Central government directly funded ordering and jointly multilateral/JICA funded projects share will increase as mega projects like High Speed Rail take shape. Organised funding will aid Indian infra build out and players like GRIL will stand to benefit from this diversification. We are of the view that government's infra Capex/ordering is not a growth constraint, but the only constraint to growth is lack of strong execution engine and failure in securing fund and non fund-based limits, which is not a constraint for GRIL.
- **Debate on whether GRIL will trade at premium valuation multiple vs. peers:** We believe that every company has an evolution period, GRIL has proven that in the unlisted market (before listing) by securing debt funding lines from the bevy of banks/mutual funds which any other infra company would dream to secure. Most of these funding lines will still be shut for a large part of the unlisted/listed universe. Listed markets ask for performance and stable performance all the time and every time, before ascribing a premium multiple. While the P/E multiple discovery takes place and investors find the same, we believe that over time GRIL will trade at a premium multiple vs. peers. For now, we ascribe 18x 1-yr forward (Sep-23E) multiple, in line with the KNR multiples and HAM equity invested multiple of 1.2x P/BV, which KNR has achieved in recent HAM asset monetisation. **We initiate BUY on GRIL with a target price of INR 2,372. We have also done the sensitivity on bottom and top valuation at 15x and 20x for the purpose of analysis.**

Bear Case 15x	Multiple	FY23E EPS	FY24E EPS	FY23E - Value (Rs/sh)	FY24E - Value (Rs/sh)	Average - Sep-23
Valuation	15	98	122	1,463	1,826	1,645
HAM at 1x	1			278	386	332
SOTP				**1,742**	**2,212**	**1,977**
Upside (%)				**10.5**	**40.4**	**25.4**
Base Case 18x	**Multiple**	**FY23E EPS**	**FY24E EPS**	**FY23E - Value (Rs/sh)**	**FY24E - Value (Rs/sh)**	**Sep-23**
Valuation	18	98	122	1,756	2,191	1,974
HAM at 1.2x	1.2			334	463	399
SOTP				**2,090**	**2,655**	**2,372**
Upside (%)				**32.6**	**68.4**	**50.5**
Bull Case 20x	**Multiple**	**FY23E EPS**	**FY24E EPS**	**FY23E - Value (Rs/sh)**	**FY24E - Value (Rs/sh)**	**Sep-23**
Valuation	20	98	122	1,951	2,435	2,193
HAM at 1.3x	1.3			362	502	432
SOTP				**2,313**	**2,937**	**2,625**
Upside (%)				**46.8**	**86.3**	**66.6**

Source: HSIE Research

Peer Valuation – Core EPC

Companies	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP (Rs/sh)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Ahluwalia Contracts	25.6	382	BUY	465	25.4	33.6	38.2	14.5	11.0	9.7	7.9	6.1	5.4	17.8	19.7	18.6
Ashoka Buildcon	27.9	99	BUY	183	10.1	11.9	13.9	2.8	2.3	2.0	1.8	1.1	0.5	8.9	9.3	9.6
Dilip Buildcon	75.3	515	BUY	669	36.6	52.1	63.8	10.8	7.6	6.2	5.5	4.5	3.8	12.1	14.3	15.1
ITD Cementation	13.6	79	BUY	117	7.1	11.1	13.6	11.2	7.1	5.8	4.4	3.2	2.6	10.8	14.9	15.5
J Kumar Infra	14.7	195	BUY	247	21.7	33.4	40.7	9.0	5.8	4.8	4.2	2.8	2.1	8.3	11.7	12.7
KNR	85.1	302	BUY	332	12.2	16.2	17.9	22.1	16.6	15.1	11.6	9.8	8.9	17.2	19.6	18.3
NCC	48.9	80	BUY	114	8.0	11.2	13.6	9.2	6.5	5.4	4.7	3.9	3.4	8.7	11.1	12.1
PNC Infratech	93.1	363	BUY	356	18.2	23.0	27.8	16.1	12.7	10.5	9.3	8.0	6.9	15.0	16.4	17.0
Sadbhav Engineering	8.8	51	BUY	73	1.3	6.1	7.6	22.2	4.9	3.9	7.7	4.7	4.1	1.1	4.7	5.6
PSP Projects	15.6	432	BUY	542	35.0	42.6	52.8	12.3	10.1	8.2	8.3	6.6	5.2	21.4	21.8	22.5
JMC Projects	17.0	102	BUY	149	7.9	11.6	15.4	11.4	7.8	5.9	5.0	3.8	3.0	12.4	16.1	18.4
HG Infra	42.5	652	BUY	702	39.7	47.0	53.5	14.7	12.4	10.9	8.3	7.2	6.4	22.3	21.2	19.7
Capacite Infraprojects	11.3	167	BUY	295	11.8	26.8	32.3	13.1	5.8	4.8	5.0	2.9	2.7	12.8	21.0	20.5
GR Infra	152.4	1,576	BUY	2,372	76.4	97.5	121.7	17.8	13.3	9.8	10.1	7.8	6.1	8.3	16.6	17.1

Source: Company, HSIE Research *P/E calculated by adjusting for embedded value

Key risks

- **EPC business is primarily dependent on road projects in India:** GRIL derives most of its revenue from contracts with a limited number of government entities. There can be no assurance that the GoI or the state governments will continue to place emphasis on the road infrastructure or related sector. In the event of any adverse change in budgetary allocations for infrastructure development or a downturn in available work in the road infrastructure sector or de-notification of toll collection, GRIL's financial performance may be adversely affected.

- **Delays in the completion of construction of current and future projects could lead to termination of concession and other EPC agreements or cost overruns:** Delays in the completion of construction of current and future projects could lead to termination of concession and other EPC agreements or cost overruns, which could have an adverse effect on GRIL's cash flows, business, results of operations and financial condition. This may lead to lower or no returns on capital and reduced revenue for the concessionaire, thus impacting the project's performance as well as causing failure to meet scheduled debt service payment dates, leading to increased interest costs from financing agreements for the projects.

- **GRIL's business is capital intensive:** If GRIL experiences insufficient cash flows to meet required payments on its debt and working capital requirements, there may be an adverse effect on its operations. A significant amount of working capital is required to finance the purchase or manufacturing of materials, mobilisation of resources and other work on projects before payment is received from clients. Since the contracts that GRIL bids for typically involve a lengthy and complex bidding and selection process which is affected by a number of factors, it is generally difficult to predict whether or when a particular contract will be awarded and the time period within which it will be required to mobilise resources for execution. As a result, it may need to incur additional indebtedness in the future to satisfy the working capital requirements.

- **Increases in the prices of construction materials, fuel, labour and equipment could have an adverse effect on GRIL's business, result of operations and financial condition:** GRIL is vulnerable to the risk of rising and fluctuating steel and cement prices as well as government policies. Any unexpected price fluctuations after placement of orders, shortage, delay in delivery or quality defects may adversely affect the business and financial performance. EPC contracts may not always include escalation clauses; therefore, the company's ability to pass on increased costs may be limited.

- **GRIL's financial performance is dependent on successful bidding for new projects and non cancellation of projects awarded:** The majority of GRIL's projects are undertaken on a non-recurring basis; therefore, it is critical that it is able to continuously and consistently secure new projects of similar value and volume. Cancellation or delay in the commencement of secured projects due to factors such as changes in customers' businesses, poor market conditions and lack of funds on the part of the project owners may adversely affect GRIL's financial performance.

- **Failure or delays in asset monetisation:** GRIL derives a large part of the captive EPC order book from the HAM projects. The company receives the NHAI grant, invests own equity and takes bank debt project finance to develop these assets. Once the projects complete, the equity investment needs to be monetised or recycled. Failure to monetise the same may result in higher load on standalone balance sheet to fund future HAM projects and, in turn, lead to slowing down of HAM inflows and growth.

Financials

Standalone Income Statement

Year ending March (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	**31,745**	**31,028**	**49,275**	**59,278**	**70,406**	**85,274**	**100,127**	**113,991**
Growth (%)	*69.4*	*(2.3)*	*58.8*	*20.3*	*18.8*	*21.1*	*17.4*	*13.8*
Material Expenses	24,648	23,195	35,289	42,193	53,839	63,971	74,572	84,239
Employee Expenses	1,278	1,801	3,472	4,466	4,548	5,921	6,823	7,801
Other Operating Expenses	430	440	667	1,206	954	1,063	1,157	1,287
EBIDTA	**5,388**	**5,593**	**9,847**	**11,413**	**11,065**	**14,319**	**17,575**	**20,663**
EBIDTA (%)	*17.0*	*18.0*	*20.0*	*19.3*	*15.7*	*16.8*	*17.6*	*18.1*
EBIDTA Growth (%)	*157.0*	*3.8*	*76.1*	*15.9*	*(3.0)*	*29.4*	*22.7*	*17.6*
Depreciation	636	806	1,381	1,868	2,268	3,026	3,255	3,554
EBIT	**4,752**	**4,786**	**8,466**	**9,545**	**8,797**	**11,293**	**14,321**	**17,110**
Other income (incl. EO items and re-casted early completion bonus	305	571	901	1,938	3,314	1,431	1,772	2,299
Interest	533	630	1,057	1,452	1,396	1,596	1,876	1,520
PBT	**4,524**	**4,728**	**8,310**	**10,030**	**10,715**	**11,128**	**14,217**	**17,888**
Tax	512	800	2,353	3,142	2,908	2,838	3,625	4,562
RPAT	**4,012**	**3,927**	**5,957**	**6,888**	**7,806**	**8,291**	**10,592**	**13,327**
Less Subsidiaries – Interest income	28	121	266	466	515	900	1,160	1,556
EO items (net of tax)/ Bonus earned adjusted for tax	(67)	(44)	(163)	(687)	(1,485)	-	-	-
APAT	**3,917**	**3,762**	**5,528**	**5,735**	**5,806**	**7,390**	**9,432**	**11,771**
APAT Growth (%)	*299.8*	*(4.0)*	*47.0*	*3.7*	*1.2*	*27.3*	*27.6*	*24.8*
EPS	**40.5**	**38.9**	**57.2**	**59.3**	**60.0**	**76.4**	**97.5**	**121.7**
EPS Growth (%)	*299.8*	*(4.0)*	*47.0*	*3.7*	*1.2*	*27.3*	*27.6*	*24.8*

Source: Company, HSIE Research

Standalone Balance Sheet

As at March (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS								
Share Capital	485	485	485	485	483	483	483	483
Reserves	10,841	14,911	20,919	27,785	35,561	43,851	54,443	67,770
Total Shareholders' Funds	**11,326**	**15,396**	**21,404**	**28,270**	**36,044**	**44,335**	**54,926**	**68,253**
Long Term Debt	3,705	4,561	7,996	10,465	10,630	12,195	11,119	9,753
Short Term Debt	246	1,588	2,611	274	2,881	3,345	3,752	4,063
Total Debt	**3,951**	**6,148**	**10,607**	**10,740**	**13,511**	**15,540**	**14,871**	**13,817**
Deferred Taxes	174	63	(685)	646	638	638	638	638
Other Non Current Liabilities	17	27	0	261	244	244	244	244
TOTAL SOURCES OF FUNDS	**15,468**	**21,634**	**31,326**	**39,917**	**50,438**	**60,757**	**70,680**	**82,952**
APPLICATION OF FUNDS								
Net Block	3,834	6,151	9,025	10,322	13,451	13,754	14,459	14,414
CWIP	168	475	433	280	555	555	555	555
Non-current Investments	1,240	526	19	17	1,026	1,026	1,026	1,026
Investments in BOT projects and other subs	940	2,004	2,735	2,556	2,651	5,692	7,636	9,789
Long-term loans and advances	463	3,261	5,061	7,115	10,894	15,280	19,288	27,555
Other Non Current Assets	110	18	249	325	28	28	28	28
Total Non-current Assets	**6,754**	**12,435**	**17,522**	**20,615**	**28,605**	**36,334**	**42,992**	**53,367**
Inventories	2,575	4,622	6,136	7,683	10,584	12,055	14,050	15,914
Debtors	5,295	6,556	8,727	8,168	8,676	11,583	13,601	15,484
Cash & Equivalents	4,150	650	1,713	5,121	1,657	2,386	3,968	3,111
Margin deposits	1,242	1,717	4,351	3,282	3,759	3,675	3,500	3,500
ST Loans & Advances	2,033	1,770	544	646	674	793	927	1,088
Other current assets	1,374	1,698	5,163	6,391	9,622	10,213	11,279	12,833
Total Current Assets	**16,668**	**17,014**	**26,634**	**31,290**	**34,972**	**40,705**	**47,325**	**51,930**
Creditors	2,256	3,251	5,189	5,570	7,283	8,172	9,596	10,924
Other Current Liabilities & Provns	5,697	4,564	7,641	6,419	5,857	8,111	10,042	11,421
Total Current Liabilities	**7,953**	**7,814**	**12,830**	**11,989**	**13,140**	**16,283**	**19,637**	**22,345**
Net Current Assets	**8,715**	**9,200**	**13,805**	**19,302**	**21,832**	**24,422**	**27,687**	**29,585**
TOTAL APPLICATION OF FUNDS	**15,469**	**21,635**	**31,326**	**39,917**	**50,438**	**60,757**	**70,680**	**82,952**

Source: Company, HSIE Research

Standalone Cash Flow

Year ending March (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT	4,731	3,487	6,451	8,278	8,026	8,291	10,592	13,327
Non-operating & EO items	(1,554)	(278)	(563)	(294)	(1,121)	(1,431)	(1,772)	(2,299)
Interest expenses	533	630	1,057	1,452	1,396	1,596	1,876	1,520
Depreciation	636	806	1,381	1,868	2,268	3,026	3,255	3,554
Working Capital Change	(577)	(4,686)	(1,809)	(2,993)	(6,094)	(1,945)	(1,858)	(2,755)
OPERATING CASH FLOW (a)	**3,770**	**(41)**	**6,516**	**8,312**	**4,474**	**9,537**	**12,092**	**13,347**
Capex	192	(2,817)	(4,653)	(2,838)	(5,074)	(3,328)	(3,959)	(3,509)
Free cash flow (FCF)	3,962	(2,858)	1,864	5,474	(599)	6,209	8,133	9,838
Investments	1,038	-3,501	-4,407	-355	-3,184	-5,996	-4,181	-8,121
Other non operating income								
INVESTING CASH FLOW (b)	**1,229**	**(6,317)**	**(9,059)**	**(3,193)**	**(8,258)**	**(9,324)**	**(8,141)**	**(11,630)**
Share capital Issuance	0	0	0	0	0	0	0	0
Debt Issuance	276	1,763	3,456	1,216	2,675	2,029	(669)	(1,054)
Interest expenses	(458)	(500)	(725)	(1,666)	(1,358)	(1,596)	(1,876)	(1,520)
Dividend	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
FINANCING CASH FLOW (c)	**(182)**	**1,263**	**2,731**	**(450)**	**1,317**	**432**	**(2,544)**	**(2,575)**
NET CASH FLOW (a+b+c)	**4,818**	**(5,096)**	**188**	**4,669**	**(2,467)**	**646**	**1,407**	**(857)**
Opening cash balance	551	5,368	272	460	5,129	1,657	2,386	3,968
Cash not included in Cash and Cash Equivalents	(1,217)	378	1,254	(8)	(1,006)	84	175	0
Closing Cash & Equivalents	5,368	273	460	5,129	2,662	2,302	3,793	3,111

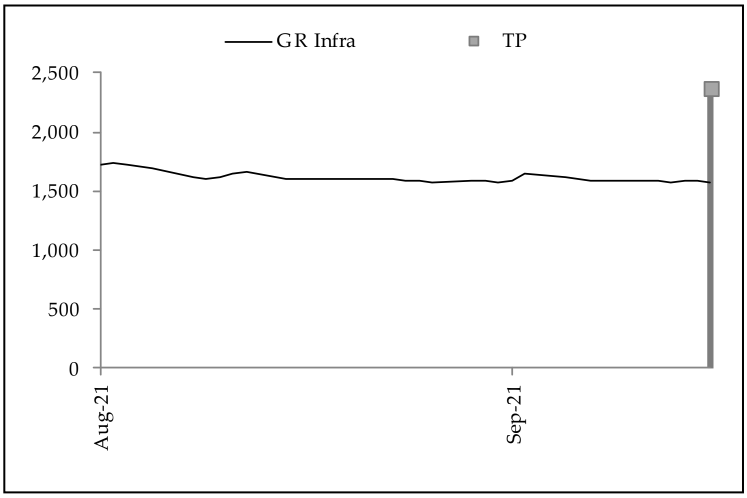
Source: Company, HSIE Research

Key Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY (%)								
GPM	22.4	25.2	28.4	28.8	23.5	25.0	25.5	26.1
EBITDA Margin	17.0	18.0	20.0	19.3	15.7	16.8	17.6	18.1
EBIT Margin	15.0	15.4	17.2	16.1	12.5	13.2	14.3	15.0
APAT Margin	12.3	12.1	11.2	9.7	8.2	8.7	9.4	10.3
RoE	46.9	28.2	30.0	23.1	18.1	18.4	19.0	19.1
Core RoCE	42.5	25.3	27.8	26.1	18.2	22.5	26.8	30.0
RoCE	28.4	19.8	20.1	16.9	13.5	14.1	15.3	15.6
EFFICIENCY								
Tax Rate (%)	11.3	16.9	28.3	31.3	27.1	25.5	25.5	25.5
Asset Turnover (x)	8.3	5.0	5.5	5.7	5.2	6.2	6.9	7.9
Inventory (days)	29.6	54.4	45.5	47.3	54.9	51.6	51.2	51.0
Debtors (days)	60.9	77.1	64.6	50.3	45.0	49.6	49.6	49.6
Payables (days)	25.9	38.2	38.4	34.3	37.8	35.0	35.0	35.0
Cash Conversion Cycle (days)	64.5	93.3	71.7	63.3	62.1	66.2	65.8	65.6
Other Current Assets (days)	53.4	61.0	74.5	63.5	72.9	62.8	57.3	55.8
Other Current Liab (days)	66	54	57	40	30	35	37	37
Net Working Capital Cycle (Days)	52.5	100.6	89.6	87.3	104.6	94.3	86.5	84.8
Debt/EBITDA (x)	0.7	1.1	1.1	0.9	1.2	1.1	0.8	0.7
Net D/E	(0.0)	0.4	0.4	0.2	0.3	0.3	0.2	0.2
Interest Coverage	8.9	7.6	8.0	6.6	6.3	7.1	7.6	11.3
PER SHARE DATA								
EPS (Rs/sh)	40.5	38.9	57.2	59.3	60.0	76.4	97.5	121.7
CEPS (Rs/sh)	47.1	47.2	71.5	78.6	83.5	107.7	131.2	158.5
DPS (Rs/sh)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BV (Rs/sh)	117.1	159.2	221.4	292.4	372.8	458.5	568.1	705.9
VALUATION								
P/E	38.9	40.5	27.6	26.6	26.2	20.6	16.2	12.9
Core P/E	35.6	37.1	25.2	24.3	24.0	18.9	14.8	11.8
P/BV	13.5	9.9	7.1	5.4	4.2	3.4	2.8	2.2
EV/EBITDA	28.2	28.2	16.4	13.8	14.8	11.6	9.3	7.9
OCF/EV (%)	2.5	(0.0)	4.0	5.3	2.7	5.8	7.4	8.2
FCF/EV (%)	2.6	(1.8)	1.2	3.5	(0.4)	3.8	5.0	6.0
FCFE/Market Cap (%)	2.5	(1.0)	3.0	3.3	0.5	4.4	3.7	4.8

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
17-Sep-2021	1,569	BUY	2,372

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

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