SUBSCRIBE

Issue Details

Issue Details	
Issue Size (Value in ` million, Upper Band)	9,633
Fresh Issue (No. of Shares in Lakhs)	0
Offer for Sale (No. of Shares in Lakhs)	115.09
Bid/Issue opens on	7-Jul-21
Bid/Issue closes on	9-Jul-21
Face Value	Rs. 5
Price Band	828-837
Minimum Lot	17

Objects of the Issue

Fresh Issue: NIL

Offer for Sale: ₹ 9,633 Million

- Achieve the benefits of listing the Equity shares on the stock exchanges.
- The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
HDFC Bank Limited
ICICI Securities Limited
SBI Capital Markets Limited
Equirus Capital Private Limited
Kotak Mahindra Capital Company Limited
Motilal Oswal Investment Advisors Limited
Registrar to the Offer
KFin Technologies Private Limited

Capital Structure ((₹ Million)	Aggregate Value
Authorized share capital	890.00
Subscribed paid up capital (Pre-Offer)	483.45
Paid up capital (Post - Offer)	483.45

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	88.0%	86.5%
Public	12.0%	13.5%
Total	**100.0%**	**100.0%**

Financials

Particulars (Rs. In Million)	FY21	FY20	FY19
Revenue from operations	78,441.3	63,727.0	52,825.8
Operating expenses	59,944.0	47,866.2	39,992.2
EBITDA	**18,497.3**	**15,860.8**	**12,833.6**
Other Income	628.1	510.1	429.5
EBIDT	19,125.4	16,370.8	13,263.1
Interest	3,617.0	2,944.8	1,696.3
Depreciation	2,262.1	1,885.2	1,489.9
PBT	13,246.4	11,540.8	10,076.9
Tax	3,714.2	3,532.5	2,910.5
Consolidated PAT	**9532.2**	**8,008.3**	**7,166.4**
EPS	98.59	82.83	74.12
Ratio	**FY21**	**FY20**	**FY19**
EBITDAM	23.6%	24.9%	24.3%
PATM	12.2%	12.6%	13.6%

Company Description

G R Infraprojects Limited (GRIL) is an integrated road engineering, procurement and construction ("EPC") company. The company has experience in design and construction of various road/highway projects across 15 States in India and having recently diversified into projects in the railway sector. The principal business operations are broadly divided into three categories: (i) civil construction activities, under which they provide EPC services; (ii) development of roads, highways on a Build Operate Transfer ("BOT") basis, including under annuity and Hybrid Annuity Model ("HAM"); and (iii) manufacturing activities, under which they process bitumen, manufacture thermoplastic road-marking paint, electric poles and road signage and fabricate and galvanize metal crash barriers.

Their principal business of civil construction comprises EPC and BOT projects in the road sector. Since 2006 the company has executed over 100 road construction projects. As of the date of the Red Herring Prospectus, out of their BOT projects, they have one operational road project which has been constructed and developed by them on a BOT (annuity) basis and 14 road projects which have been awarded to them under the HAM, out of which five projects are currently operational, four projects are under construction and construction is yet to commence on five of these projects. GRIL has experience in constructing state and national highways, bridges, culverts, flyovers, airport runways, tunnels and rail over-bridges.

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

In March 2010, GRIL commissioned a wind energy based power plant at Jaisalmer, Rajasthan with an installed capacity of 1.25 MW under the 'Policy for Promoting Generation of Electricity through NonConventional Energy Sources – 2004'. They had also commenced constructing a group housing project comprising row houses and other residential units at Udaipur, Rajasthan. While the company execute a majority of their projects themselves, they also form project-specific joint ventures and consortiums with other infrastructure and construction companies.

Valuation

G R Infraprojects Limited is poised to deliver healthy growth on the top-line as well as the bottom-line front on the back of its strong order book (FY2021 Order Book/Sales ratio stands at 2.4x). On the valuation front, at the higher-end of the issue price band, the company is available at a discount to its other listed road focused EPC peers on P/E basis (on FY2021 EPS) and EV / EBITDA of 6.0x its FY21 EBITDA. The company reported a RoE of 24.0% in FY2021, which is among the best in the industry.

Considering the government's focus on enhancing infrastructure assets in the country, primarily the road construction space will continue to attract investor. GR Infra with its efficient operations is well placed to benefit from the growth in the sector, we advise investors to **SUBSCRIBE** to the issue.

One of the first road projects that the company had executed was for the Public Works Department, Rajasthan in 1997 with a Bid Project Cost of ₹ 26.50 million, whereas the project recently awarded by NHAI, i.e. Vadodara Mumbai Expressway project in the state of Maharashtra on HAM basis, to them in 2020 involves a Bid Project Cost of ₹ 27,470.00 million.

The company executes road projects as EPC contractors, construction services providers as well as through PPP model on a BOT basis, with a focus on HAM projects. For the projects that they deliver on an EPC and construction services basis, the scope of their services typically includes design and engineering of the project, procurement of raw materials, project execution at site with overall project management up to the commissioning of these projects. In addition, they also undertake repair and maintenance of projects in accordance with their contractual arrangements. For BOT projects, in addition to construction and development of the project, the company is also required to operate and manage the project during the concession period.

In Fiscals 2021, 2020, and 2019, the total income of the company was ₹ 79,069.43 million, ₹ 64,237.05 million, and ₹ 53,255.30 million, respectively and they generated profit for the year of ₹ 9,532.21 million, ₹ 8,008.32 million, and ₹ 7,166.38 million, respectively for such periods. The total income and profit for the year grew at a CAGR of 21.85% and 15.33%, respectively, between Fiscal 2019 to Fiscal 2021.

Promoters and Management: As on the date of the Red Herring Prospectus, the Promoters of the Company are Vinod Kumar Agarwal, Ajendra Kumar Agarwal, Purshottam Agarwal and Lokesh Builders Private Limited. Individual Promoters of the company have more than 25 years of experience in the construction industry. Prior to the incorporation of the Company, individual Promoters were associated with M/s. Gumani Ram Agarwal, a partnership firm engaged in the construction business, which was acquired by GRIL in 1996. The Promoters have played a key role in the development of business and the company benefits from their industry knowledge and expertise, vision and leadership. The Promoters have strong operational knowledge, good relationships with GRIL's clients and a successful track record of executing infrastructure projects. In addition to the company's individual Promoters, their senior management team includes qualified, experienced and skilled professionals who have experience across various sectors. The stability of GRIL's management team and the industry experience brought on by the individual Promoters will enable them to continue to take advantage of future market opportunities and expand into newer markets. The senior management team is able to leverage their market position with their collective experience and knowledge in the infrastructure construction industry, to execute their business strategies and drive their future growth. The company's department heads have an average experience of over two decades in the infrastructure construction industry.

Strengths:

- ***Focused EPC player with road projects focus***: GRIL have over 25 years of experience in executing EPC projects which have been in the road sector comprising construction and development of state and national highways, bridges, culverts, flyovers, airport runways, tunnels and rail over-bridges. In March and May 2018, they were awarded two projects for the railways sector which include earthwork, construction of bridges and supply of materials and track linking and civil engineering works. As of March 31, 2021, the Order Book primarily comprised EPC and HAM projects in the road sector across the states of Uttar Pradesh, Madhya Pradesh, Maharashtra, Gujarat, Chattisgarh, Rajasthan, Andhra Pradesh, Bihar, Manipur, Odisha and Himachal Pradesh. In addition, their Order Book also includes railway projects in Andhra Pradesh and Madhya Pradesh and an optical fibre project spread across the states of Bihar, Odisha, West Bengal, Andaman and Nicobar Islands, Jharkhand and Sikkim. They have developed experience of executing projects across diverse geographic locations in India with varied degrees of complexities such as construction in high-traffic and high density areas, construction of tunnels in hilly terrain and slope protection and rock fall protection due to high rainfall. They have also developed a long-standing relationship with their clients including the National Highways Authority of India, Ministry of Road Transport and Highways, Public Works Department, Government of Rajasthan and Rajasthan State Road Development Corporation

- ***Established track record of timely execution***: With their experience of over 25 years and more than 100 road construction projects executed since 2006, the company has developed an established track record of efficient project management and execution experience, involving trained and skilled manpower, efficient deployment of equipment and an in-house integrated model. Their in-house materials supply chain management ensures that key construction materials are timely delivered to their manufacturing facilities and construction sites, thereby enabling them to manage their processes effectively and maintain their key raw material inventory in an optimal manner. The project management team, working in conjunction with the design and engineering team, ensures operational efficiencies through overall supervision of the manufacturing and project execution process. In the last three Fiscals, all of their projects were completed prior to or by the scheduled timelines. In addition, in Fiscals 2021, 2020, and 2019, of the total projects completed by them, 50.00%, 50.00% and 80.00% of such projects were completed before the scheduled completion date. Their track record of successfully completing complex projects in a timely manner has allowed them to grow their business.

- ***In-house integrated model***: GRIL's in-house integrated model includes a design and engineering team, manufacturing facilities for processing of bitumen, thermoplastic road marking paint and road signage, fabrication and galvanizing unit for manufacture of metal crash barriers, owned construction equipment and a fleet of transportation vehicles. Their manufacturing facilities for processing of bitumen located in Udaipur, Rajasthan, Sandila, Uttar Pradesh and Guwahati, Assam and fabrication and galvanization unit for manufacturing metal crash barriers and electric poles located at Ahmedabad, Gujarat and thermoplastic road-marking paint and road signage manufacturing unit, also located in Udaipur, Rajasthan cater to the key components that they require in the construction and development of their projects. Their manufacturing facilities help reduce their dependence on third party suppliers for key materials i.e., bitumen emulsion, as well as other products required for completion of roads such as signages, overhead structures and toll canopies. Their in-house integrated model is facilitated by the timely transportation of key raw materials such as bitumen and diesel to project sites by tankers owned by them that are fitted with GPS tracking devices, which are believed to reduce pilferage and adulteration. They have also set up a workshop in Udaipur, Rajasthan where they undertake major repair and maintenance of their construction equipment and vehicles that ensures reduced downtime of their construction equipment. GRILs also own specialized construction equipment such as hot mix plants, soil stabilizers, mobile cold recycling mixing plants and cement spreaders. As at March 31, 2021, the aggregate gross block value of their Company's property, plant and equipment was ₹ 19,999.23 million. It is believed that their in-house integrated model has contributed to their ability to successfully complete projects on or before time, without compromising on quality and allowing them to capture a larger proportion of the value chain in the road development business, including EPC margins, developer returns and operation and maintenance margins. Their in-house integrated model provides them with a competitive advantage over other infrastructure development and construction companies that outsource their construction activities to external agencies.

- ***Strong financial performance:*** The significant growth of their business in the last three fiscal years has contributed significantly to their financial strength. Their revenue from operations increased from ₹ 52,825.84 million in Fiscal 2019 to ₹ 78,441.29 million in Fiscal 2021 at a CAGR of 21.86% while their profit for the year increased from ₹ 7,166.38 million in Fiscal 2019 to ₹ 9,532.21 million in Fiscal 2021 at a CAGR of 15.33%. The Company's EBITDA, on a consolidated basis, has grown at a CAGR of 20.08% from Fiscal 2019 to Fiscal 2021. During the 9 months period in Fiscal 2021, the Company has managed a total income of ₹ 46,160.47 million ranking second among the Key EPC players. The Company reported an operating profit margin and net margin of 19.5% and 11.6% respectively. For the third quarter of Fiscal 2021, the Company has managed a total income of ₹ 22,470.29 million, ranking second among the Key EPC Players. GRIL reported an operating profit margin and net margin of 22.1% and 14.5% respectively. For the fourth quarter of fiscal 2021, the Company had reported revenue from operations of ₹ 26,284.1 Million and a profit after tax of ₹ 2,472.8 million. Further, during the 9 months period in Fiscal 2021, among the Key EPC Players, GRIL ranked second in EBITDA (₹ 10,369.3 million) as well as EBITDA margin (21.0%). For the third quarter of Fiscal 2021, among the Key EPC Players, the Company ranked first in terms of both EBITDA (₹ 5,215 million) as well as EBITDA margin (23.2%). During the 9 months period in Fiscal 2021, among the Key EPC Players, the Company ranked first in PAT (₹ 5,333 million) as well as net margin (11.6%). For the third quarter of Fiscal 2021, among the Key EPC Players, the Company ranked first in terms of both PAT (₹ 3,212 million) as well as net margin (14.5%).

<u>Key Strategies:</u>

- ***Continued focus on road EPC business***: Over the next few years, the company will continue to focus on construction of their existing projects while seeking opportunities to expand their portfolio of road projects. While they intend to maintain their focus on EPC contracts, they plan to also continue pursuing BOT projects (including toll projects), either independently or in partnership with other players. They intend to draw on their experience, asset base, market position and ability to execute and manage multiple projects across various geographies, to further grow their portfolio of road and other EPC projects. A key element of their growth strategy is to seek to improve the performance and competitiveness of their existing activities. The scale and complexity of their projects have increased in recent years and they intend to continue to focus on projects with higher contract values. Further, to fuel their growth strategy, they intend to invest in the latest equipment and technology to support their expanding operations. They also seek to purchase equipment from domestic and foreign manufacturers and continue their strategy of minimal reliance on hired or leased equipment. They believe investment in modern equipment ensures continuous and timely availability of equipment critical to their business while investments in technology makes them more efficient and accurate, both of which make the operations cost-effective in the long term. The company believes that geographical diversification of their projects will reduce their reliance on particular States and allow them to capitalise on different growth trends in various States across India.

- ***Pursue other segments within the EPC space***: Infrastructure development will be a major driver for growth of the Indian industry in the foreseeable future due to ever increasing levels of the Government's focus and investment in infrastructure in India. While the company continues to focus on development and construction of road projects, as part of their growth strategy, they intend to diversify into, and will continue to bid for, projects related to the railways sector, including earthwork, construction of bridges and supply of materials and track linking, and laying of optical fibre cables. They believe that expanding into new functional areas will allow them to consolidate their position in the infrastructure sector and effectively leverage their experience in executing EPC projects. This will also help them gain experience in such sectors and be well positioned to strategically expand in these sectors in future.

- ***Leverage core competencies with enhanced in-house integration***: In-house integration has been an integral part of their growth over the years and they seek to focus on further enhancing their in-house competencies by expanding into various functional aspects of their projects thereby eliminating dependence on third parties. Depending on the nature of projects that they may bid for and win in future, they may also develop design and engineering capabilities in-house, which may include fabrication of steel girders, rail over-bridges, fabrication of canopies for road infrastructure, highway traffic management systems and other road safety and traffic management solutions for road infrastructure. They believe that further developing specialized in-house capabilities would reduce dependence on third parties, thereby avoiding risks and minimizing costs associated with outsourcing. Further, as part of the company's diversification strategy into other sectors such as railways and water infrastructure, they plan to set up in-house facilities to assist them in timely execution of these projects while maintaining construction quality, similar to that of their current in-house integrated model in the road EPC space.

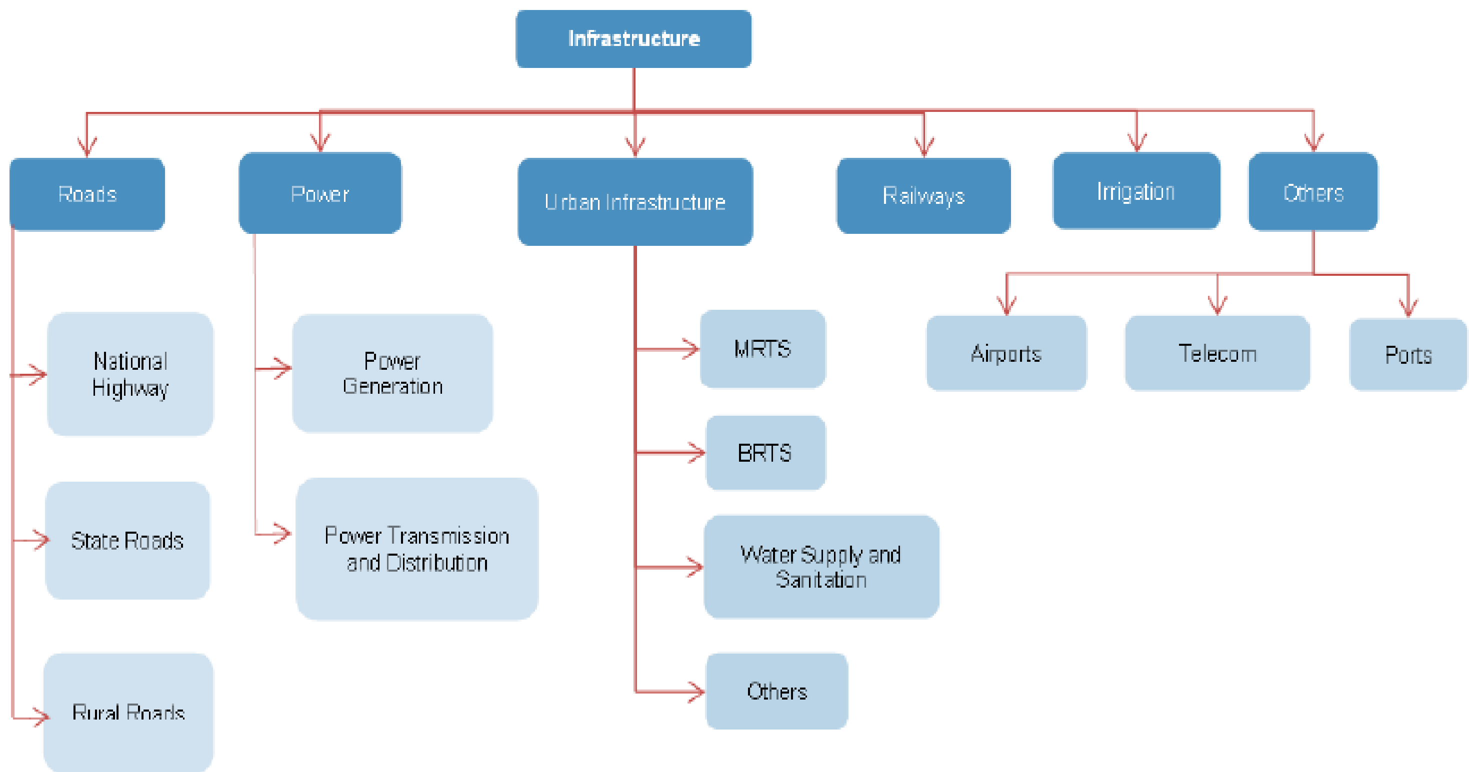
- ***Strengthen internal systems and continue to focus on technology and operational efficiency***: GRIL's growing dependence on IT infrastructure, applications, data management and other internal processes require them to ensure the reliability and functionality of their IT systems. They intend to strengthen their IT systems and other internal processes to reduce manual intervention, improve reliability and efficiency of their business. In order to achieve this, they have implemented an 'Enterprise Resource Planning' system across their operations and departments and they continue to take steps to strengthen the same. Given the nature of the company's industry, cost competitiveness is a key component of their success. They believe that they have low execution cost which is partly attributable to their integrated operations and investment in technology. Further, the scale of their operations provides them with a significant advantage in reducing costs and sustaining their cost advantage. They also believe that operational efficiency, i.e., maintaining quality, minimizing costs and ensuring timely completion of their projects depends largely on the skill and workmanship of their employees. As competition for qualified personnel and skilled labour is increasing among construction companies in India and as the company pursues growth opportunities, they seek to attract, train and retain qualified personnel and skilled labour by increasing their focus on training their staff in basic and advanced engineering and construction technology and skills. They also seek to offer their engineering and technical personnel a wide range of work experience and learning opportunities by providing them with an opportunity to work on a variety of large and complex construction projects.

- ***Financial discipline coupled with strategy to monetise assets***: They intend to continue their practices of strict cost control through (i) ownership and maintenance of modern construction equipment and centralizing procurement of major construction equipment and raw materials; (ii) careful selection of projects; and (iii) cautious expansion into new businesses or new geographical areas. Further, in their efforts to avoid over-leveraging their balance sheet, they intend to continue exploring alternate means of generating cash flows, including by divesting their stake in the road infrastructure projects as they have done in the past. The company may also continue to explore other means of raising capital, including, among others, through the setting up appropriate infrastructure investment trusts.

Industry Snapshot:

- **Overview of infrastructure sector in India**

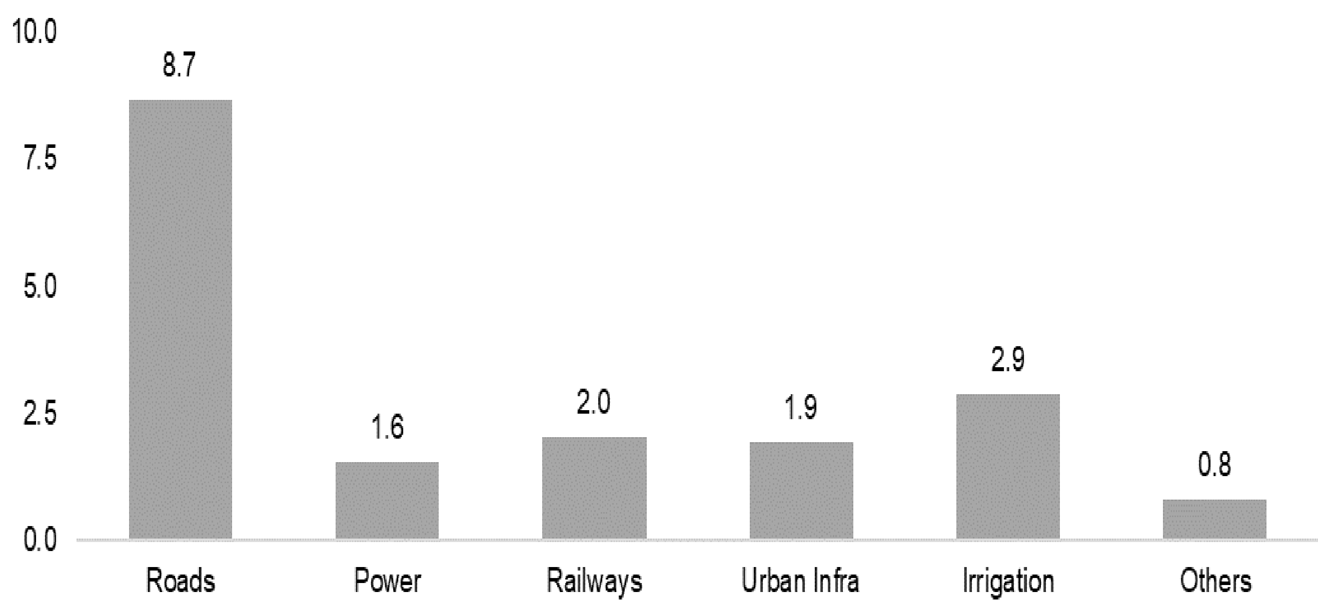
The infrastructure sector encompasses roads, power, railways, urban infrastructure, and irrigation among others. The sheer size and magnitude of major infrastructure development projects dictate substantial capital investment. The government introduced significant policy reforms to augment foreign direct investment (FDI) inflows to further boost investment and enhance infrastructure in the country. The Indian government's policy reforms resulted in total FDI inflows of USD16.3 billion in construction activities in infrastructure from fiscal 2001 to fiscal 2020, as per the Department of Industrial Policy & Promotion data.



Source: CRISIL Research

- **Share of various infrastructure segments in total construction spend**

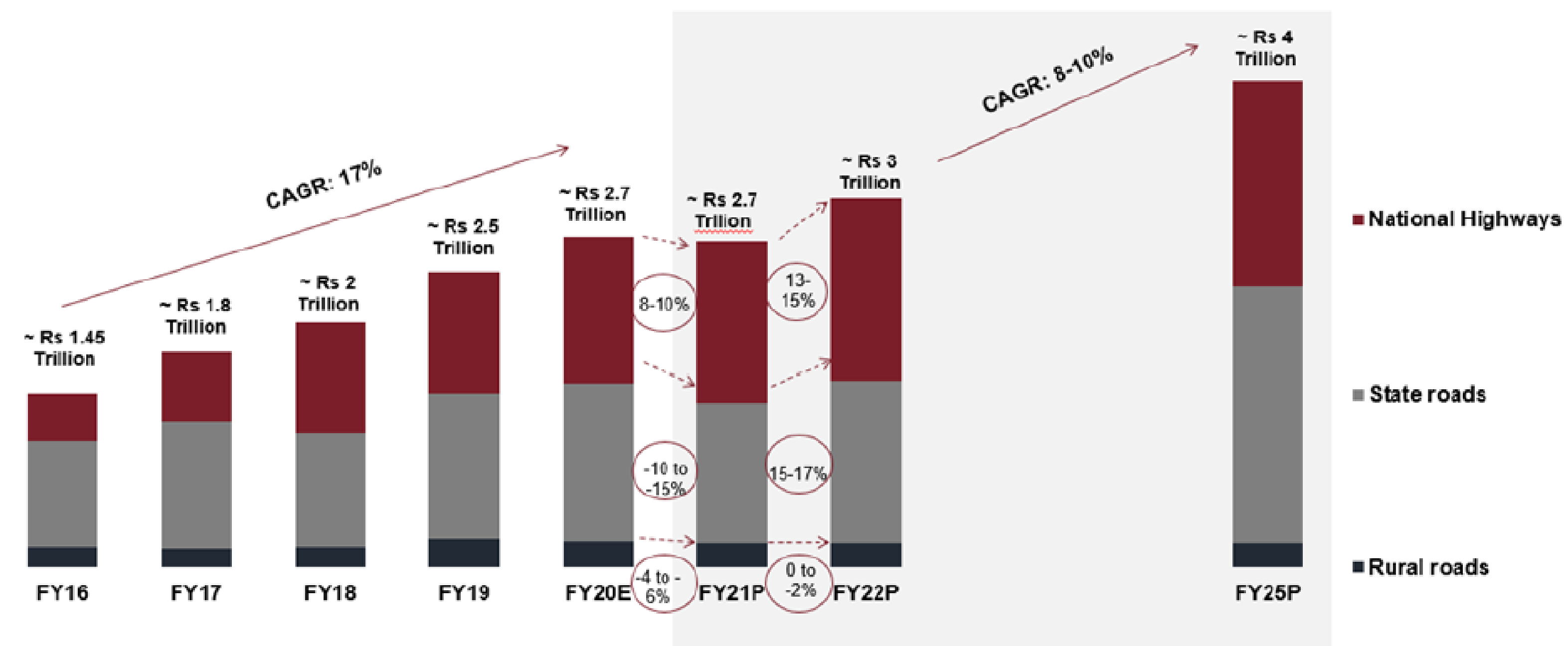
The total construction spend in the overall infrastructure segment from fiscal 2015 to fiscal 2019 was valued at Rs 17.93 trillion. Of this, the roads sector accounted for ~Rs 8.7 trillion followed by the irrigation sector with a share of 16.1% valued at ~Rs 2.9 trillion.



- **Investments by private sector to grow 2x times over the next 5 years**

CRISIL Research expects private construction investments in national highways to increase 2x to Rs 1.5 trillion over fiscal 2021-25 compared with the previous five years. This is expected to be mainly through the hybrid annuity model (HAM) model, as the build-operate-transfer (BOT) toll model may have only a few takers. A policy push in the form of changes in model concession agreements (MCAs) for HAM and BOT projects and a reduction in bid eligibility criteria across all national highway projects would bode well for private participation. However, the share of HAM in total projects awarded is constrained by the cautious approach of banks on lending to HAM projects. Amidst the COVID-19 pandemic, NHAI and the ministry have taken various steps under the Atmanirbhar programme to ease issues faced by developers. Measures such as releasing monthly payments instead of milestone-based payments and extension of timelines for completion of projects have sustained private participation in the sector.

National Highway capex to sustain the sector this fiscal, supported by construction of high value expressways



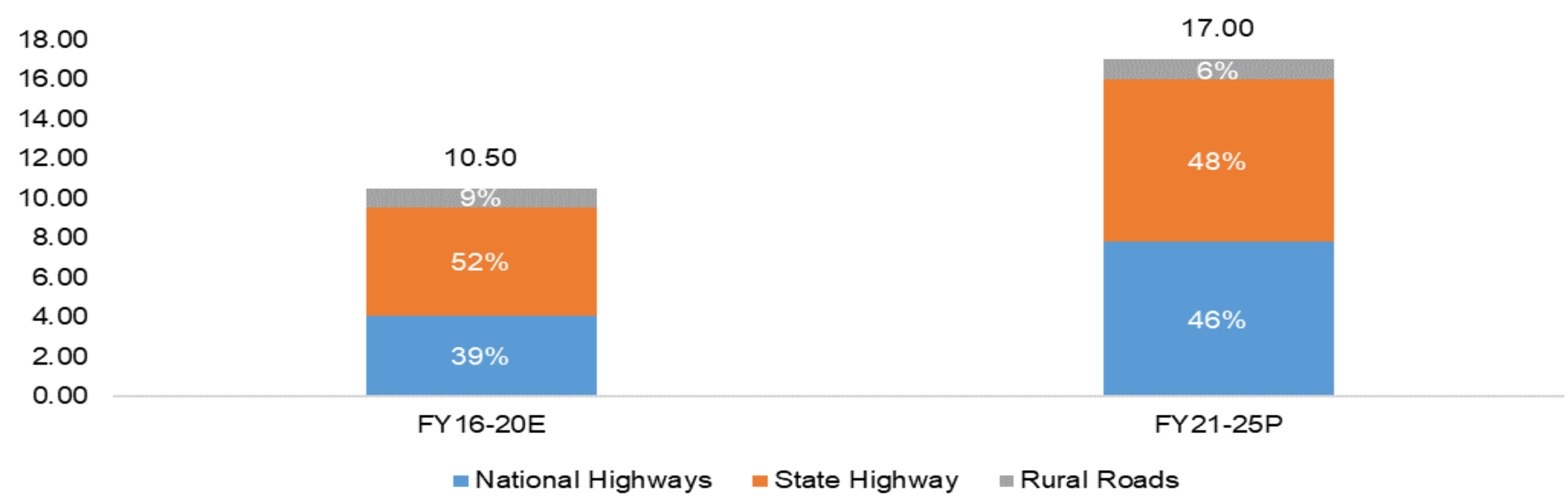
E: Estimated, P: Projected
Note: Capex excludes land acquisition costs
Source: NHAI, MoRTH, State budget documents, PMGSY, CRISIL Research

- **Future growth in road construction on account of increased government focus**

CRISIL Research expects investments in roads to record a 0-2% decline in fiscal 2021 owing to the Covid-19 pandemic due to the lockdown impacting construction activities and migration of labour. A 10-15% recovery is likely in FY22 led by increased execution of projects as NHAI shifts its focus to execution and implementation of high-value projects such as expressways.

Road projects augur well for construction players, as nearly all funds (save those used for land acquisition) are channelized into construction. Spending on road construction, which is estimated to have risen 11% on-year in fiscal 2020, is forecast to increase 1.6 times over fiscal 2021-25 compared with fiscal 2016-20, due to the government's focus on roads, and state and national highways driven by public funds. Around 35% of the projects awarded by the National Highways Authority of India (NHAI) in fiscal 2019 and 2020 are through HAM. Under HAM, 40% of the total construction cost is paid by the government during the construction period. Private players are struggling to infuse funds in BOT toll projects because of their highly leveraged balance sheets and the overhang of languishing projects awarded between fiscal 2011 and 2013. However, HAM was instrumental in attracting substantial private funds. Introduced by the end of FY16, HAM constituted nearly 20% of the total length awarded by NHAI in fiscal 2020. It is expected to account for 35-45% of total NHAI projects awarded in fiscal 2021. As execution of these projects picks up, private investments are expected to go up.

Expected spend on road construction (in Rs trillion)



- **Impact**

The amendment to allow premium payment to begin only in the fourth year of completion will give the developers and lenders a great level of comfort, as interest payments are high in the first three years of operations. The deemed termination of projects will ensure that troubled projects are terminated without delay, thereby avoiding problems that previously existed with prolonged delay of projects. The amendments with regard to toll fees and maintenance of national highways will provide better protection to the users of highways.

- **Railways**

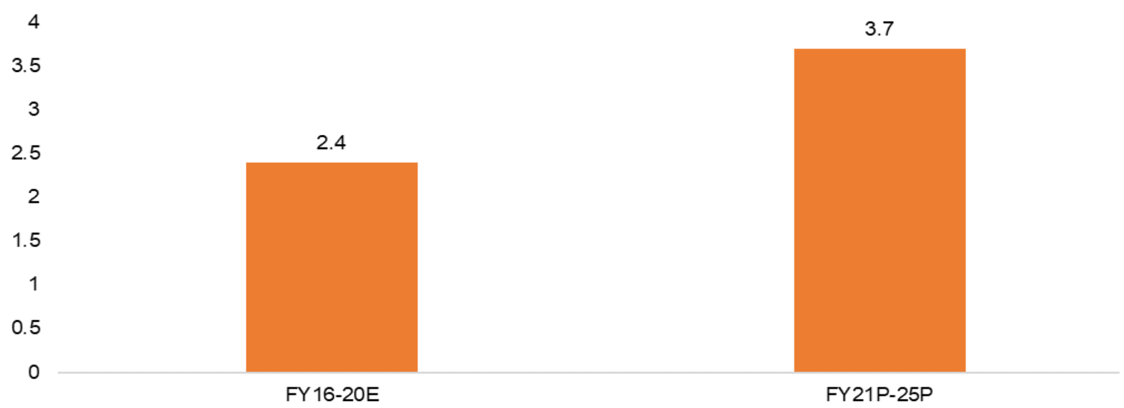
Investment in past five years

Of the total construction spend in the infrastructure sector, railways had a share of 11.4% in fiscal 2015-19. Historically, investments in railways have come from the Centre; and private participation has been miniscule. Indian Railways is trying to harness private capital for funding capex across projects such as first/last mile and port connectivity projects, logistic parks/private freight terminals, station redevelopment, etc. It has developed various PPP models such as non-government rail, joint venture, capacity augmentation with funding provided by customers, build-operate-transfer, and capacity augmentation through annuity to suit different risk appetites. However, projects are being implemented through the first three models, as private participation through BOT and annuity is yet to take off.

Network decongestion to drive future growth

CRISIL Research expects a 5-10% decline in investments in Railways in fiscal 2021 owing to the Covid-19 pandemic led by the following factors: i) lockdown impacted construction activities; ii) manpower shortage due to labour migration; iii) strained financials of the central government; and iv) headwinds in raising external capital due to the depressed global economy owing to the Covid-19 pandemic. Investments are likely to rise 10-15% in fiscal 2022 led by the dedicated freight corridor and deferral of fiscal 2021 capex. Construction capex is expected to be Rs 3.7 trillion over the next five years compared with Rs 2.4 trillion over the past five years led by investments in network decongestion.

Construction spend in railway sector (in Rs trillion)



- **Growth drivers for the sector**

  - **Bolstering finances by monetising land and revenue from advertising**

    The Ministry of Railways set up the Rail Land Development Authority in January 2007 to push commercial development of vacant railway land and air space. The land could be developed as commercial, retail mall, institutional, hospitality, or entertainment spaces. The Indian Railways is also planning to monetise land along the tracks through various ways. Some of the options being explored include using the land for generation of solar energy, planting trees, and making horticulture gardens.

  - **Fast-tracking of approvals**

    As per the existing procedure in railways for sanctioning a project, proposals for various projects received from Zonal Railways are examined internally by the Railway Board. Of these, the firmed-up proposals are sent for an 'in-principle' approval to the National Institution for Transforming India (NITI) Aayog. Projects costing less than Rs 5 billion are approved by the Minister for Railways and those above that are reviewed by both NITI Aayog and the Expanded Board for Railways, and approved by the Cabinet Committee on Economic Affairs. After obtaining requisite approvals, projects are included in the budget. Thereafter, Indian Railways carries out a final location survey and prepares detailed estimates. Generally, tenders are floated after the sanction of detailed estimates. This entire process between the initiation of the proposal and final award of tender is now 9-12 months in general, compared with 2-2.5 years earlier.

- **Growth drivers of infrastructure industry**

Economic growth, increasing government thrust, preference for roads in freight traffic, spurt in private participation and passenger traffic are key growth drivers for infrastructure investment.

Government reforms are a big contributor

The construction sector is a big contributor to economic growth because of its multiplier effect. And, under this, infrastructure development comprises a major share. The existing gap between infrastructure facilities in developed nations and India necessitate further development. Growth of infrastructure in the country is driven by major government reforms. In recent times, the government has launched schemes such as Bharatmala Pariyojana, Sagarmala Project, AMRUT, and Dedicated Freight Corridor to boost different sectors under infrastructure. Additionally, capital outlay under budgetary allocations for the key infrastructure sectors has increased ~4x from fiscal 2016 to fiscal 2022 BE. Accordingly, the government has announced the following initiatives for the infrastructure sector:

- Innovative modes to finance infrastructure build-out, such as dedicated finance institution, zero-coupon bonds by infrastructure debt funds, and debt financing of investment trusts

- Enhancing of asset monetisation via the national monetisation pipeline

➢ **Review of road infrastructure in India**

India has the second-largest road network in the world, spanning 6.5 million km. Road transportation, the most frequently used mode of transportation in India, accounts for about 86% of passenger traffic and close to 67% of freight traffic. Although Indian national highways span nearly 136,440 km, constituting just 2% of road length, they accounted for about 40% of total road traffic in fiscal 2020. The secondary system of roads comprise state roads and major district roads, which accounted for the remaining 60% of traffic and 98% of road length.

➢ **Key growth drivers for the road sector**

Policy impetus to drive private participation

In order to promote competition among investors and increase participation of private players in road construction, the Ministry of Road Transport and Highways (MoRTH) and National Highways Authority of India (NHAI) had introduced some policy changes under PPP models. The major changes are as follows:

- To promote the entry of small players, the government revised the eligibility criteria under engineering, procurement and construction (EPC) and hybrid annuity model (HAM) projects

- Major changes were made in the HAM concession agreement to ease cash flow for developers and protect their returns

- To bring the interest of private players, changes were made to the build-operate-transfer (BOT) concession agreement.

  Apart from this, the government has taken various steps under the Aatmanirbhar package to mitigate the impact of Covid-19 on the sector:

- Extension of time (EOT) up to 3-6 months for all projects and relaxation of milestone achievement

- Release of performance security, Covid-19 emergency loan facilities and moratorium on loan repayment up to August 2020

- Extension of concession period for BOT-toll operators due to toll suspension and restriction in movement during lockdowns.

New region-specific initiatives to increase road network

New initiatives have been taken by the government to build state roads. Road Requirement Plan (RRP) for left wing extremism-affected areas and Special Accelerated Road Development Programme for North-Eastern Region (SARDP- NE) are two ongoing projects covering state roads. MoRTH has set up National Highways and Infrastructure Development Corporation Ltd (NHIDCL), an organisation that will award national highway projects specifically in border areas and north-east states. Apart from these projects, the Bharat Mala programme has been proposed to build new roads along the border.

The government's focus on infrastructure and roads

- In fiscal 2021 gross budgetary support is estimated to be 12.3% higher than budgeted, resulting in a 12% rise in National highway construction or 7,767km (YTD, December 2020)

- NHAI borrowings rose 11 times over the past five years to ~Rs 2.6 Trillion with a debt-to-equity ratio of 1.4x as of September 2020

- While fiscal 2020BE allocation under Pradhan Mantri Gram Sadak Yojana (PMGSY) has increased 9% overfiscal 2021 RE, to Rs 150 billion, the sum is lower than the average Rs 190 billion allocated annually since fiscal 2017.

Under the national monetisation pipeline, which was announced in the Union Budget 2021-22, NHAI and Power Grid Corporation of India Limited (PGCIL) each have sponsored one infrastructure investment trust (InvIT) that will attract international and domestic institutional investors. Five operational roads with an estimated enterprise value of Rs 50 billion are being transferred to the NHAI InvIT. Similarly, transmission assets of a value of Rs 70 billion will be transferred to the PGCIL InvIT.

Healthy economic growth to push road development

With the economy expected to grow at a healthy pace, per capita income is set to improve, which will increase demand for TWs and PVs in the country. Initiatives such as Make in India and the implementation of Goods and Services Tax (GST) are also expected to add to the road freight traffic in India. Rise in TW and four-wheeler vehicles, increasing freight traffic, and strong trade and tourist flows between states are all set to augment road development in the country. Also, all road segments, i.e. national highways, state roads and rural roads, are expected to see higher traffic growth due to faster economic growth.

- **Overview of airport infrastructure in India**

Airports form a major part of infrastructure in the airline industry in India. Though both are interdependent, their business models are different. The airline industry can respond to dynamic market conditions by moving quickly to increase or decrease capacities through leasing, sale or retirement of aircraft. However, the same is not applicable to airports due to the time required for changing the airport infrastructure. Airport infrastructure in India has evolved from being government-controlled to profit-focused over the years. Hence, like any other corporation, airports experience pressure from various stakeholders to operate efficiently and profitably. In India, private participation in construction of airports began with Cochin International Airport Ltd in the mid-1990s.

Key Risk:

- The company derives majority of the revenue from their civil construction and their financial condition would be materially and adversely affected if they fail to obtain new contracts or their current contracts are terminated.
- Their business currently is primarily dependent on road projects in India undertaken or awarded by governmental authorities and other entities funded by the GoI or state governments and they derive majority of their revenues from contracts with a limited number of government entities. Any adverse changes in the central or state government policies may lead to their contracts being foreclosed, terminated, restructured or renegotiated, which may have a material effect on the business and results of operations.
- GRIL's business is capital intensive. If they experience insufficient cash flows to meet required payments on their debt and working capital requirements, there may be an adverse effect on the results of their operations.
- They are required to furnish bank guarantees as part of their business. Their inability to arrange such guarantees or the invocation of such guarantees may adversely affect their cash flows and financial condition.
- If they fail to maintain the roads constructed by them pursuant to and as per the relevant contractual requirements, they may be subject to penalties or even termination of their contracts, which may have a material adverse effect on their reputation, business, financial condition, results of operations and cash flows.
- Increases in the prices of construction materials, fuel, labour and equipment could have an adverse effect on the business.
- Certain of GRIL's Subsidiaries and Group Companies have incurred losses in the past and may incur losses in the future which may have an adverse effect on GRIL's reputation and business.
- The continuing effect of the COVID-19 pandemic on their business and operations is highly uncertain and cannot be predicted.

Valuation:

G R Infraprojects Limited is poised to deliver healthy growth on the top-line as well as the bottom-line front on the back of its strong order book (FY2021 Order Book/Sales ratio stands at 2.4x). On the valuation front, at the higher-end of the issue price band, the company is available at a discount to its other listed road focused EPC peers on P/E basis (on FY2021 EPS) and EV / EBITDA of 6.0x its FY21 EBITDA. The company reported a RoE of 24.0% in FY2021, which is among the best in the industry.

Comparison with Listed Industry Peers

Name of Company	Face Value (Rs. / Share)	P/E	EPS	RoNW (%)	NAV (Rs. Per Share)
G R Infraprojects Limited	5	*	98.31	23.95%	411.63
Peer Group					
KNR Constructions Limited	2	15.2	14.49	20.79%	69.67
PNC Infratech Limited	2	12.9	19.37	16.28%	119.01
HG Infra Engineering Limited	10	10.58	36.31	22.27%	163.04
Dilip Buildcon Limited	10	17.42	31.92	7.84%	248.58
Ashoka Buildcon Limited	5	10.61	9.84	44.60%	22.06
IRB Infrastructure Developers Limited	10	48.74	3.33	1.70%	196.35
Sadbhav Engineering Limited	1	1.65	46.21	49.53%	93.3

Considering the government's focus on enhancing infrastructure assets in the country, primarily the road construction space will continue to attract investor. GR Infra with its efficient operations is well placed to benefit from the growth in the sector, we advise investors to **SUBSCRIBE** to the issue.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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