

1 September 2020

## Gayatri Projects

*Execution gaining ground, normal H2 expected; retaining a Hold*

Rating: **Hold**

Target Price: ₹19

Share Price: ₹16

Considering all the pandemic-triggered disruptions, Gayatri's Q1 execution is comforting. With the workforce gradually improving and execution gaining ground, management hopes for flattish FY21 revenue, with potential. Despite the weak orders recently, the OB still provides ample assurance. A surge in debt, due to the stretched NWC cycle proved to be a hitch. Notwithstanding ample revenue assurance and benign valuations, we retain our Hold rating (with a TP of ₹19) as present leverage is discomfiting. Any lumpy arbitration receipts would augur well for it, and help quicken its de-levering pace.

**Current ground view.** At present, Gayatri's blended execution efficiency largely tracks labour available at its sites; both are at ~80%. Management expects full-labour restoration by Oct'20. While the pace of execution has improved, the monsoon is likely to hinder it from achieving its true potential in Q2. Thus, the pace of execution would likely return to normal only in H2.

**Net debt rises.** Despite the lower scale of operations, net debt was up ~₹2.3bn q/q to ~₹17.4bn. Management attributed the rise to working-capital needs, because of slower disbursements at certain state government projects. To lower gearing, management looks to lumpy arbitration receipts and hopes for receipt of ~₹2.2bn in arbitration claims in coming months to de-lever its balance sheet.

**Ample assurance; focus on execution.** Incl. orders of ~₹1.5bn, the end-Q1 OB was ~₹127bn, offering ample assurance of ~4.1x TTM revenues. On an adequate OB, management, while in no hurry to add orders, aims at ~₹30bn-40bn inflows for FY21 (primarily to replace orders executed, and then some). It eyes a bid pipeline of ~₹200bn-300bn in roads. It is also looking at water-supply projects and plans to develop this segment ahead.

**Valuation.** At the CMP, the stock (excl. investments) trades at 4.1x FY22e EPS, against our TP implied exit PE multiple of 5x. **Risk.** Prolonged Covid-19 impact.

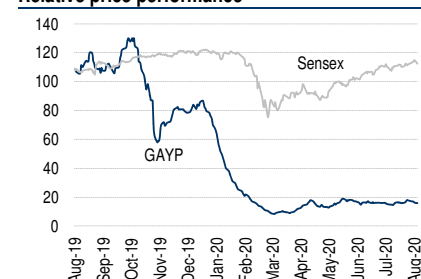
| Key financials (YE Mar) | FY18   | FY19   | FY20P  | FY21e  | FY22e  |
|-------------------------|--------|--------|--------|--------|--------|
| Sales (₹ m)             | 29,123 | 34,631 | 34,273 | 25,698 | 31,001 |
| Net profit (₹ m)        | 1,881  | 2,108  | 608    | -220   | 712    |
| EPS (₹)                 | 10.0   | 11.3   | 3.2    | -1.2   | 3.8    |
| Growth (%)              | 107.5  | 12.1   | -71.2  | -136.2 | -      |
| PE (x)                  | 20.0   | 14.4   | 2.5    | -      | 4.1    |
| EV / EBIDTA (x)         | 11.2   | 8.4    | 3.9    | 4.6    | 3.8    |
| PBV (x)                 | 3.3    | 2.3    | 0.2    | 0.3    | 0.3    |
| RoE (%)                 | 20.2   | 17.2   | 5.3    | -2.4   | 7.4    |
| RoCE (%)                | 14.9   | 15.5   | 11.4   | 8.8    | 13.4   |
| Net debt / equity (x)   | 1.5    | 1.2    | 1.6    | 1.2    | 1.3    |

Source: Company, Anand Rathi Research P- Provisional

| Key data           | GAYP IN / GAYP BO |
|--------------------|-------------------|
| 52-week high / low | ₹133 / 8          |
| Sensex / Nifty     | 38628 / 11388     |
| 3-m average volume | \$0.1m            |
| Market cap         | ₹2.9bn / \$40m    |
| Shares outstanding | 187m              |

| Shareholding pattern (%) | Jun'20 | Mar'20 | Dec'19 |
|--------------------------|--------|--------|--------|
| Promoters                | 45.2   | 44.9   | 45.0   |
| - of which, Pledged      | 44.0   | 44.0   | 43.9   |
| Free float               | 54.8   | 55.1   | 55.1   |
| - Foreign institutions   | 23.6   | 27.1   | 26.7   |
| - Domestic institutions  | 1.7    | 2.9    | 3.7    |
| - Public                 | 29.5   | 25.2   | 24.7   |

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations (standalone)

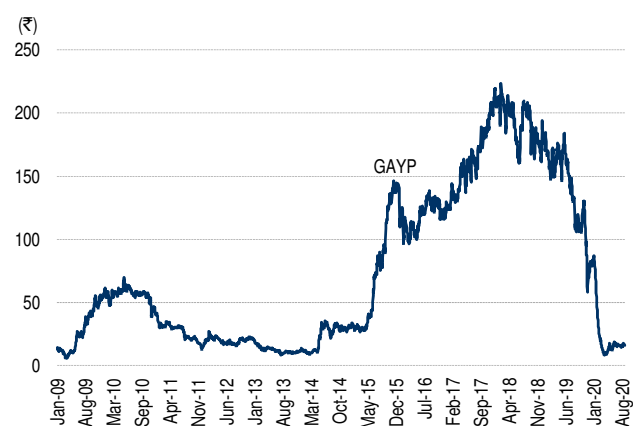
**Fig 1 – Income statement (₹ m)**

| Year-end: Mar               | FY18          | FY19          | FY20P         | FY21e         | FY22e         |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Order backlog               | 132,000       | 163,000       | 130,204       | 130,204       | 133,304       |
| Order inflow                | 31,803        | 65,631        | 1,477         | 25,698        | 34,101        |
| <b>Net revenues</b>         | <b>29,123</b> | <b>34,631</b> | <b>34,273</b> | <b>25,698</b> | <b>31,001</b> |
| Growth (%)                  | 37.7          | 18.9          | -1.0          | -25.0         | 20.6          |
| Direct costs                | 23,504        | 28,327        | 28,948        | 21,907        | 25,974        |
| SG&A                        | 747           | 854           | 1,059         | 704           | 849           |
| <b>EBITDA</b>               | <b>4,871</b>  | <b>5,450</b>  | <b>4,266</b>  | <b>3,087</b>  | <b>4,177</b>  |
| EBITDA margins (%)          | 16.7          | 15.7          | 12.4          | 12.0          | 13.5          |
| Depreciation                | 547           | 659           | 909           | 899           | 925           |
| Other income                | 64            | 79            | 52            | 82            | 84            |
| Interest expenses           | 2,563         | 2,513         | 2,857         | 2,566         | 2,379         |
| PBT                         | 1,825         | 2,357         | 551           | -296          | 957           |
| Effective tax rate (%)      | -3.0          | 10.6          | -10.2         | 25.6          | 25.6          |
| + Associates / (Minorities) | -             | -             | -             | -             | -             |
| Net income                  | 1,881         | 2,108         | -3,846        | -220          | 712           |
| Adjusted income             | 1,881         | 2,108         | 608           | -220          | 712           |
| WANS                        | 187           | 187           | 187           | 187           | 187           |
| FDEPS (₹ / sh)              | 10.0          | 11.3          | 3.2           | -1.2          | 3.8           |

**Fig 3 – Cash-flow statement (₹ m)**

| Year-end: Mar                   | FY18   | FY19  | FY20P  | FY21e  | FY22e |
|---------------------------------|--------|-------|--------|--------|-------|
| PBT+ Net interest expense       | 4,325  | 4,791 | 3,357  | 2,189  | 3,252 |
| + Non-cash items                | 547    | 659   | 909    | 899    | 925   |
| Oper. profit before WC chg      | 4,871  | 5,450 | 4,266  | 3,087  | 4,177 |
| - Incr. / (decr.) in WC         | 2,440  | 105   | -50    | -3,444 | 2,001 |
| Others including taxes          | 122    | 277   | -56    | -76    | 245   |
| Operating cash-flow             | 2,309  | 5,068 | 4,373  | 6,607  | 1,932 |
| - Capex (tangible + intangible) | 563    | 1,077 | 1,193  | 391    | 1,000 |
| Free cash-flow                  | 1,746  | 3,990 | 3,180  | 6,217  | 932   |
| Acquisitions                    | -      | -     | -      | -      | -     |
| - Dividend                      | -      | -     | -      | -      | -     |
| + Equity raised                 | 1,907  | -     | -      | -      | -     |
| + Debt raised                   | -1,300 | -783  | -363   | -3,736 | 1,472 |
| - Fin investments               | -392   | -81   | -4,495 | -      | -     |
| +Net int. expense + Misc.       | 2,289  | 2,447 | 7,286  | 2,484  | 2,295 |
| Net cash-flow                   | 456    | 840   | 26     | -4     | 109   |

Source: Company, Anand Rathi Research P- Provisional

**Fig 5 – Price movement**


Source: Bloomberg

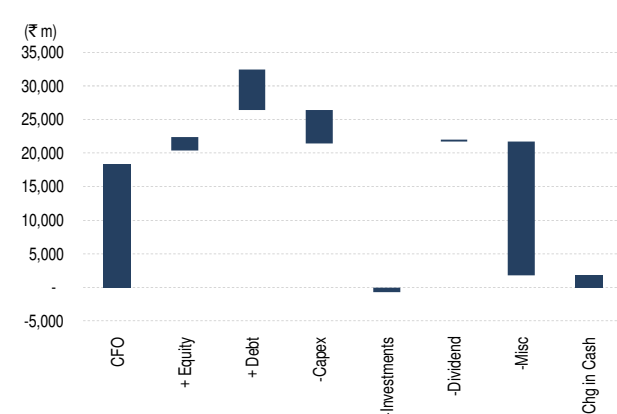
**Fig 2 – Balance sheet (₹ m)**

| Year-end: Mar            | FY18          | FY19          | FY20P         | FY21e         | FY22e         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Share capital            | 374           | 374           | 374           | 374           | 374           |
| Net worth                | 11,230        | 13,296        | 9,423         | 9,203         | 9,915         |
| Total debt               | 19,443        | 18,710        | 18,418        | 14,682        | 16,155        |
| Minority interest        | -             | -             | -             | -             | -             |
| DTL / (Assets)           | 71            | 21            | -50           | -50           | -50           |
| <b>Capital employed</b>  | <b>30,744</b> | <b>32,027</b> | <b>27,792</b> | <b>23,836</b> | <b>26,020</b> |
| Net tangible assets      | 3,350         | 3,763         | 3,942         | 3,543         | 3,618         |
| Net intangible assets    | -             | -             | -             | -             | -             |
| Goodwill                 | -             | -             | -             | -             | -             |
| CWIP (tang. & intang.)   | -             | 5             | 109           | -             | -             |
| Investments (strategic)  | 10,169        | 10,088        | 5,594         | 5,594         | 5,594         |
| Investments (financial)  | -             | -             | -             | -             | -             |
| Current assets (ex cash) | 33,916        | 41,518        | 42,334        | 33,885        | 38,415        |
| Cash                     | 2,426         | 3,267         | 3,292         | 3,288         | 3,397         |
| Current liabilities      | 19,117        | 26,613        | 27,479        | 22,474        | 25,003        |
| Working capital          | 14,800        | 14,904        | 14,854        | 11,410        | 13,411        |
| <b>Capital deployed</b>  | <b>30,744</b> | <b>32,027</b> | <b>27,792</b> | <b>23,836</b> | <b>26,020</b> |
| Contingent liabilities   | 47,826        | 46,398        | -             | -             | -             |

**Fig 4 – Ratio analysis**

| Year-end: Mar                   | FY18  | FY19  | FY20P | FY21e | FY22e |
|---------------------------------|-------|-------|-------|-------|-------|
| P/E (x)                         | 20.0  | 14.4  | 2.5   | -     | 4.1   |
| EV / EBITDA (x)                 | 11.2  | 8.4   | 3.9   | 4.6   | 3.8   |
| EV / Sales (x)                  | 1.9   | 1.3   | 0.5   | 0.6   | 0.5   |
| P/B (x)                         | 3.3   | 2.3   | 0.2   | 0.3   | 0.3   |
| RoE (%)                         | 20.2  | 17.2  | 5.3   | -2.4  | 7.4   |
| RoCE (%)                        | 14.9  | 15.5  | 11.4  | 8.8   | 13.4  |
| RoIC (%)                        | 16.9  | 14.0  | 11.4  | 5.8   | 9.0   |
| DPS (₹ / sh)                    | -     | -     | -     | -     | -     |
| Dividend yield (%)              | -     | -     | -     | -     | -     |
| Dividend payout (%) - incl. DDT | -     | -     | -     | -     | -     |
| Net debt / equity (x)           | 1.5   | 1.2   | 1.6   | 1.2   | 1.3   |
| Receivables (days)              | 142   | 147   | 136   | 140   | 140   |
| Inventory (days)                | 37    | 38    | 66    | 41    | 40    |
| Payables (days)                 | 101   | 111   | 113   | 113   | 112   |
| CFO : PAT%                      | 122.7 | 240.4 | 719.6 | -     | 271.4 |

Source: Company, Anand Rathi Research P- Provisional

**Fig 6 – Cumulative capital allocation, FY13-20P**


Source: Company

## Result / Concall Highlights

### Income statement

- Covid-compelled disruptions curb revenues.** Revenue from operations, while down ~32% y/y to ~₹6.7bn, are yet comforting considering the covid-compelled disruptions in Q1 FY21 – lockdown for much of Apr'20 (fewer man-days), a disrupted supply-chain and the gradual return of labour (~40-50% labour available only by late-Jun'20). Management said the pace of execution gradually improved over Q1, as labour returned and supply-chain issues normalised, but material traction was seen only toward Jun'20.
- EBITDA margin misses secular guidance.** Despite a ~51bp y/y improvement in the gross margin (to ~22%), the Q1 EBITDA margin was down ~263bps y/y to ~12.9%. Management attributed this to the under-absorption of fixed costs due to the lower scale of operations (on constrained pace of execution) during the quarter.
- Reported net loss for the third straight quarter.** Because of the ~44% y/y decline in operating profitability and higher finance costs (up ~22% y/y, on higher debt) and depreciation (up ~13% y/y on capex incurred), the company reported a ~₹0.1bn loss, against a ~₹0.5bn profit a year ago.

Fig 7 – Financial highlights

| ₹ m                | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 | Q1 FY21 | % Y/Y   | % Q/Q  |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|
| Sales              | 8,228   | 6,113   | 8,779   | 11,511  | 9,841   | 6,977   | 8,354   | 9,102   | 6,679   | -32.1   | -26.6  |
| EBITDA             | 1,417   | 981     | 1,416   | 1,635   | 1,527   | 994     | 1,204   | 541     | 861     | -43.6   | 59.2   |
| EBITDA margins (%) | 17.2    | 16.0    | 16.1    | 14.2    | 15.5    | 14.2    | 14.4    | 5.9     | 12.9    | -263bps | 695bps |
| Interest           | 626     | 670     | 690     | 526     | 643     | 630     | 737     | 847     | 782     | 21.5    | -7.7   |
| Depreciation       | 160     | 164     | 166     | 168     | 192     | 195     | 199     | 323     | 217     | 13.09   | -32.7  |
| Other income       | 3       | 12      | 48      | 16      | 16      | 16      | 3       | 17      | 3       | -82.6   | -83.0  |
| Exceptional items  | -       | -       | -       | -       | -       | -       | 4,453   | -       | -       | -       | -      |
| PBT                | 634     | 158     | 608     | 957     | 708     | 185     | -4,182  | -613    | -136    | -119.2  | -77.9  |
| Tax                | 130     | -45     | 129     | 36      | 160     | 105     | -265    | -56     | -15     | -109.4  | -73.2  |
| PAT                | 504     | 203     | 479     | 921     | 548     | 80      | -3,917  | -557    | -121    | -122.0  | -78.3  |
| Adj. PAT           | 504     | 203     | 479     | 921     | 548     | 80      | 271*    | -557    | -121    | -122.0  | -78.3  |

Source: Company

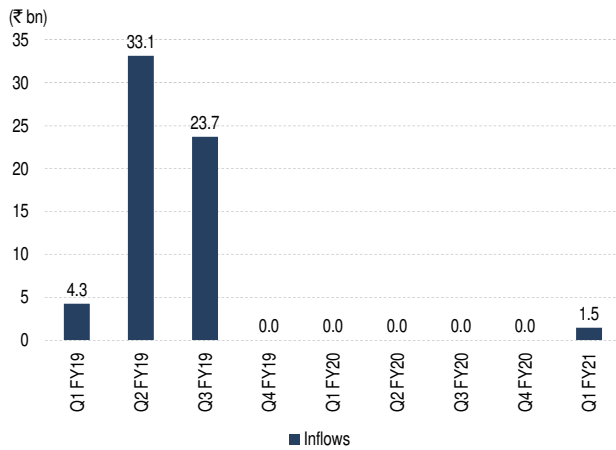
\*Tax for Q3 FY20 has been assumed to be entirely on booking of the exceptional item

### Order backlog / Inflow outlook

- During Q1, the company was the beneficiary of a ~₹1.5bn water-supply project (incl. ~₹0.2bn of maintenance works) in Uttar Pradesh in a JV (Gayatri's share: ~80%).
- With Q1 inflows lagging works executed, the OB declined for the sixth straight quarter, to ~₹127bn. The sturdier assurance of ~4.1x TTM revenues despite the OB declining sequentially is attributable to slower revenues booked during Q1 on the constrained pace of execution.
- On bidding for future opportunities, management said it has recently stayed away from many tenders floated by the NHAI as most of these were for hybrid annuity projects. It expects more EPC projects to come up for bidding ahead (most likely in H2).
- Management said competition, especially for road orders, has increased substantially.

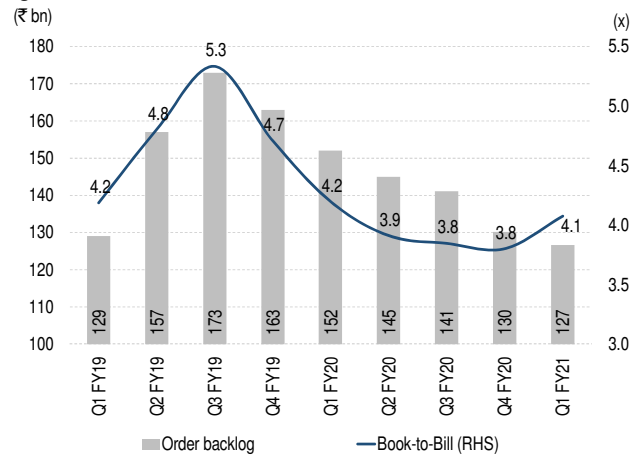
- While the projects the company targets generally see more rational bidding owing to larger ticket-sizes (greater than ~₹10bn), management yet intends to exercise prudence while bidding for projects.
- It further added, on account of its sturdy order book, it was under no pressure to add orders and hence intends to price its bids keeping in mind its risk/return thresholds.
- On diversification, management said that while roads (~67% of the OB) comprises most of the OB and would likely be the cornerstone for the foreseeable future, it has recently made a foray into water-supply projects and looks to focus on such orders ahead.
- Overall, the company seeks orders of ~₹30bn-40bn, and eyes a road EPC bid-pipeline of ~₹200bn-300bn (from the NHAI, MoRTH and NHIDC). Bids for these projects are due in the coming 2-3 months.

Fig 8 – Q1 inflows: ~₹1.5bn; FY21 target: ~₹30bn-40bn



Source: Company

Fig 9 – End-Q1 OB: ~₹127bn; BtB: ~4.1x TTM revenues



Source: Company

### Project updates

- Irrigation projects.** Of its end-Q1 OB, ~28% of orders arose from irrigation. Of these, management said execution at its Telangana irrigation projects (of ~₹11bn) have picked up pace over Q1, and targets completions for both these projects by end-FY21. It offered no comments on its Andhra Pradesh projects.
- The Purvanchal Expressway packages.** The company has commenced works at both the packages, and at end-Q1 had pending works of ~₹16.6bn of the gross potential of ~₹27.6bn. Execution is going good at both the packages, and the cumulative progress is slightly ahead of schedule (adjusted for the Covid impact).

### Balance sheet

- At 30<sup>th</sup> Jun'20, net debt at ~₹17.4bn was up ~₹2.3bn q/q. The rise in net debt despite the lower scale was attributed to the rise in working capital needs during the quarter.
  - Management said that, while it received timely payments from the NHAI and also some state authorities like UPEIDA and MSRDC (as these projects had attained financial closure with banks), it saw slower disbursements from state authorities in Telangana and Andhra Pradesh (primarily for irrigation works) leading to lengthening of its receivables cycle.

- Of its ~₹20.1bn gross debt at end-Q1 (up ~₹1.7bn q/q), long-term debt (incl. current maturities) was ~₹7.2bn, working-capital debt comprised the balance.
- At present, net-debt-to-equity is ~1.9x, up from ~1.6x a quarter back. The jump in the gearing is attributable to losses booked during Q1 (hence, lower net worth) and a q/q risen net debt.
- On 30<sup>th</sup> Jun'20, it had cash & equivalents of ~₹2.7bn.
- It had availed of loan moratorium under the scheme announced by the RBI. With the moratorium period having come to an end, management is confident of meeting all its financial obligations.
- Net working capital days (excl. retention) have jumped by ~29 days q/q to ~91, largely due to slower receivables at Andhra Pradesh and Telangana state projects.

### Other highlights

- **Execution in the Covid context.** With the gradual easing of the government-imposed lockdown restrictions, management commenced execution from 20<sup>th</sup> Apr'20 in a phased manner at all its sites.
  - While the pace of execution in Q1 was constrained by loss of man-days in Apr'20, a disrupted supply chain and labour availability issues subsequently, these have substantially improved since.
  - Management currently pegs labour availability at ~80%, up from ~40-50% in late-Jun'20. The blended execution efficiency too is estimated at ~80% up from ~50-60% in late-Jun'20.
  - Management expects labour to return to normal, post-monsoons (in Oct'20).
  - It said that, while the pace of execution has risen in Q2, it has yet to reach its true potential and is constrained by the monsoon. Thus, it expects execution to return to normal in H2 FY21.

### Guidance

- Keeping in view the yet evolving pandemic, the labour availability and execution efficiency at work sites, management talked of flattish to ~5% y/y higher revenues in FY21.
- For FY21, it targets a ~14-15% EBITDA margin.
- It retained its inflows target of ~₹30bn-40bn in FY21.

## Valuation

While the Q1 performance has been better than expected, we retain our FY21 and FY22 estimates owing to the higher leverage and stretched working-capital cycle (on slower disbursals at some Andhra Pradesh and Telangana state projects). Any improvement on these fronts would lead us to revisit our estimates.

On our retained estimates, we value the construction business at 5x FY22e EPS of ₹3.8, and assign no value for investments in the road assets (a 26% stake in Gayatri Highways at current market capitalisation of ₹103m) and in power assets (potential from the recent monetisation deal with Sembcorp not considered). Our target price works out to ₹19.

At the ruling price, the stock (excl. investments) is available at PEs of 4.1x FY22e, against our TP-implied exit multiple of 5x.

**Fig 10 – PE band – one-year-forward**



Source: Bloomberg, Anand Rathi Research

### Risks

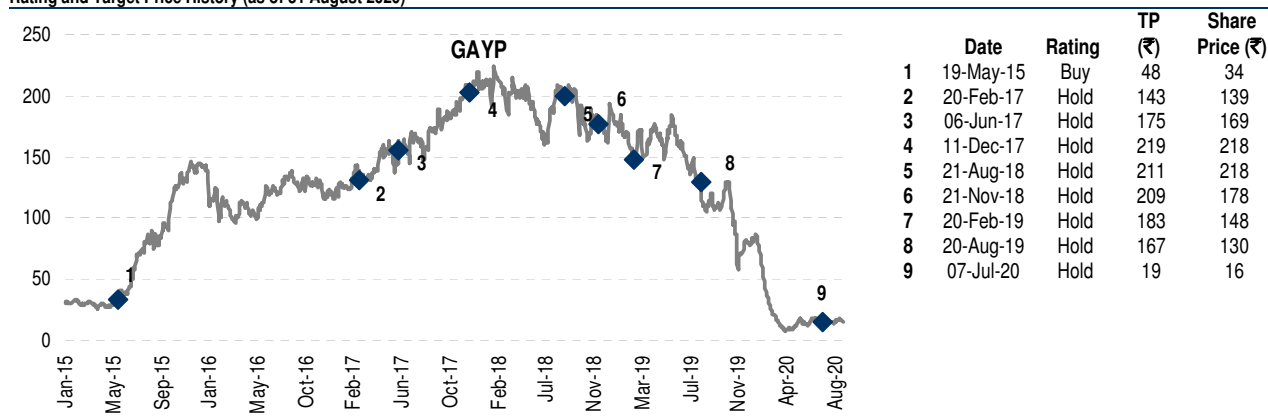
- Prolonged impact of Covid-19.
- Slower-than-anticipated pace of execution.

## Appendix

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#### Ratings Guide (12 months)

|                           | Buy  | Hold  | Sell |
|---------------------------|------|-------|------|
| Large Caps (>US\$1bn)     | >15% | 5-15% | <5%  |
| Mid/Small Caps (<US\$1bn) | >25% | 5-25% | <5%  |

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