

Stock Update

Strong execution but weak margins

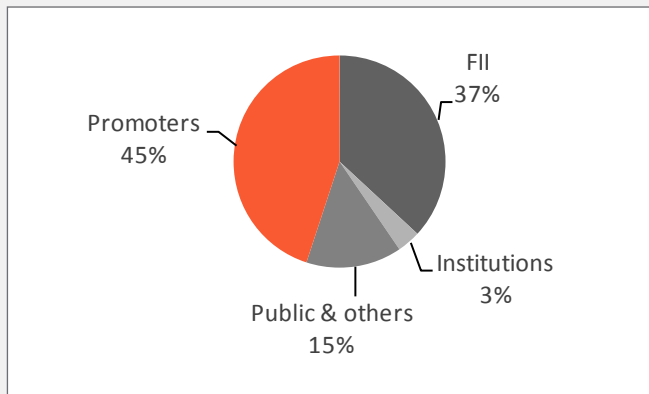
Gayatri Projects

Reco: Hold | CMP: Rs184

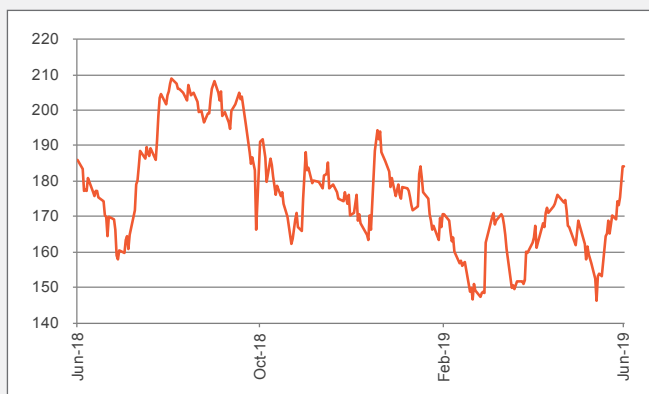
Company details

Price target:	Rs200
Market cap:	Rs3,446
52-week high/low:	Rs211/145
NSE volume: (No of shares)	1.0 lakh
BSE code:	532767
NSE code:	GAYAPROJ
Sharekhan code:	GAYAPROJ
Free float: (No of shares)	10.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.4	22.3	4.5	-2.5
Relative to Sensex	10.3	10.2	-5.1	-14.2

Key points

- Strong execution dimmed by weak operating margins; lower interest expense boosts net earnings:** In Q4FY2019, standalone revenue beat our estimates and grew by 23.3% y-o-y to Rs. 1,151 crore, led by strong execution. However, the operating margin declined sharply by 246 bps y-o-y to 14.2% due to significant on-site mobilisation ahead of actual revenue booking. Further, a 17.5% y-o-y fall in interest expenses drove up PBT by 33% y-o-y to Rs. 95.7 crore. A higher effective tax rate (of 3.8% versus a tax credit during Q4FY2018) lowered growth in PAT that grew 27% y-o-y to Rs. 92 crore.
- Robust order backlog; order intake expectations stay strong:** GPL has a strong order book of Rs. 16,300 crore which amounts to 4.7x its FY2019 standalone revenue, providing a strong revenue visibility. After receiving order inflows worth Rs. 6,100 crore in FY2019, GPL expects a Rs. 6,000-6,500 crore order intake for FY2020 with a major share expected to come from roads sector. Due to a strong order backlog and with major sites already mobilised, it expects to achieve a more than 25% revenue growth for FY2020 with stable operating margins at 16%. Further, due to a minimal capex requirement of Rs. 50-60 crore and debt repayment of Rs. 200 crore in FY2020, it expects net profit to grow by 30-40% y-o-y for FY2020.
- GPL to exit power in 2-3 quarters with Sembcorp IPO:** GPL has a potential economic exposure to 12.15% pre-IPO stake in Sembcorp Energy India Ltd (SEIL), which filed a draft prospectus in February 2018 for an IPO. GPL's management expects the IPO to be launched in the next two-three quarters. Meanwhile, GPL is actively looking at ways to monetise its stake and generate liquidity/de-leverage its balance sheet.
- Improving liquidity along with healthy free cash flow generation:** GPL has reduced its debt to equity ratio from 2.6x in FY2017 to 1.2x in FY2019. It had not incurred any new debt in last four years apart from equipment financing. The company and its JVs have been awarded a total of Rs. 600 crore by different arbitrators/courts (including interest up to April 2019), which it expects to receive in the over next 2-3 years. In addition, GPL and its JVs have outstanding claims of more than Rs. 2,400 crore in different arbitral tribunals/courts. The company is exploring avenues to generate liquidity against

these arbitration awards/claims. GPL also achieved free cash flow of Rs. 150 crore for the first time in last ten years and expects strong free cash flow generation going ahead.

- ◆ **Maintain Hold with revised PT of Rs. 200:** We have fine-tuned our estimates for FY2020 and introduced FY2021E in this note. GPL's strong order backlog and expected improvement in infrastructure project awards provides a healthy

earnings growth visibility over FY2019-FY2021E. However, its EPC vertical (adjusting for BOT and power investments) trades at a P/E of 10.5x its FY2021E earnings, which according to us provides a limited upside potential at this stage. Hence, we have maintained our Hold rating on the stock with revised sum-of-the-parts (SOTP)-based price target (PT) of Rs. 200 (rolling forward our valuation multiple to FY2021E).

Results (Standalone)

Particulars	Rs cr				
	Q4FY19	Q4FY18	y-o-y (%)	Q3FY19	q-o-q (%)
Net sales	1151.1	933.2	23.3%	877.9	31.1%
Construction expenses	913.0	714.7	27.8%	692.5	31.8%
Employee cost	37.4	28.7	30.5%	31.2	20.1%
Other expenditure	37.2	34.3	8.2%	12.5	197.0%
Total operating expenditure	987.6	777.7	27.0%	736.2	34.1%
Operating profit	163.5	155.5	5.1%	141.6	15.4%
Other income	1.6	-4.2	-138.9%	4.8	-65.4%
Depreciation	16.8	15.6	7.7%	16.6	0.8%
Interest	52.6	63.8	-17.5%	69.0	-23.7%
PBT	95.7	71.9	33.1%	60.8	57.4%
Less: Extraordinary expenses	0.0	0.0		0.0	
Taxes	3.6	-0.9	-517.9%	12.9	-72.0%
PAT	92.1	72.7	26.6%	47.9	92.1%
Add: Extraordinary expenses	0.0	0.0		0.0	
Adjusted PAT	92.1	72.7	26.6%	47.9	92.1%
Equity capital	37.4	37.4	0.0%	37.4	0.0%
EPS (Rs.)	4.9	3.9	26.6%	2.6	92.1%
Margins (%)					
OPM	14.2%	16.7%	-246 bps	16.1%	-193 bps
NPM	8.0%	7.8%	21 bps	5.5%	254 bps
Effective tax rate	3.8%	-1.2%	496 bps	21.1%	-1739 bps

Source: Company, Sharekhan Research

Valuation (Standalone)

Particulars	Rs cr			
	FY18	FY19	FY20E	FY21E
Sales	2,912.3	3,463.1	4,060.0	4,819.0
YoY growth (%)	37.7	18.9	17.2	18.7
EBITDA	487.1	545.0	654.2	776.5
Margin (%)	16.7	15.7	16.1	16.1
Adjusted net profit	188.1	210.8	266.7	290.0
YoY growth (%)	119.2	12.1	26.5	8.7
Shares in issue (cr)	18.7	18.7	18.7	18.7
EPS (Rs.)	10.0	11.3	14.2	15.5
P/E (x)	18.4	16.4	13.0	11.9
P/BV (x)	3.1	2.6	2.0	1.7
EV/EBITDA (x)	8.1	7.0	6.0	5.0
RoCE (%)	15.7	16.5	18.4	19.3
RoNW (%)	20.2	17.2	17.6	15.7

Source: Company, Sharekhan Research

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