



## SPML INFRA

### Best Turnaround Infrastructure Stock

Equity investment has always been a game of patience and one showcasing this ability usually makes it big in the market. Along with patience other factors like long-term vision, futuristic approach and the ability to spot opportunities ahead of the curve is an advantage. And last but not the least, one must spot the opportunity when it is small and there is hardly any fancy about the stock amongst the investor fraternity. Reason being, if there is fancy about the stock, a larger stratum is ready to pay higher valuation, eventually making it a momentum stock. And the basic investment principle suggests that one must not pay higher than the intrinsic value of a particular stock.

As you are reading this, the only thought in a reader's mind is: are such opportunities still available? And the answer is – yes! Such opportunities are still available but may be seen as a distressed company at a superficial level. However, once we take a deeper look at different aspects like possible turnaround, management bandwidth and consistent performance at the execution level, one would find a company that provides a significant opportunity of generating returns. Here is one company with a market capitalisation of ₹161.76 crore and with book value of ₹76 that is available at a price to book value of just 0.48x. We are speaking about SPML Infra.

### The Valuation

With indices consistently trading at elevated levels, how come this stock is available at throwaway valuation? The first thought that comes to your mind is that there is something wrong with the company and hence it is available at cheap valuations. While this thought is partially correct, it is just one way of looking at. There are certain tailwinds the company faced – those are fully discounted in the price and from here on the only way is moving towards betterment

Standalone Financial Performance (₹ Cr)			Standalone Financial Performance (₹ Cr)		
Particulars	Q4FY22	Q4FY21	Particulars	FY22	FY21
Total Income	229.14	199.69	Total Income	870.09	658.58
Total Expenses	200.96	219.4	Total Expenses	828.95	596.57
EBITDA	28.95	9.15	EBITDA	45.03	-2.49
EBITDA Margins (%)	12.298	-9.87	EBITDA Margins (%)	4.73	-0.37
PBT	3.67	2.51	PBT	8.86	-6.39
Tax	2.63	1.04	Tax	-1.12	-5.98
Profit After Tax	3.62	2.39	Profit After Tax	9.98	-107.17
PAT Margins (%)	1.58	1.2	PAT Margins (%)	1.15	-16.27
Diluted EPS (₹)	0.82	0.68	Diluted EPS (₹)	2.68	-29.24

### Understanding the Business

SPML Infra is a leading infrastructure development company with over four decades of experience in public as well as private sector project execution. To put it in simple words, SPML Infra has an expertise in executing world-class infrastructure for water treatment and transmission, wastewater handling, treatment and recycling, solid waste management, power transmission and distribution, and civil infrastructure development. If we take a closer look at the kind of domain they are into, all the segments are supported by the government providing a special focus and, most importantly, making it financially viable.

In the past, many private infrastructure players faced issues related to margin decline and then a few projects eventually becoming financially unviable. The debt pile only increased and affected the overall performance. However, the story is completely different now. The government has provided abundant liquidity and with interest cost staying at historical lower levels and larger public infrastructure being kept as a focus area, one could expect better days ahead for infrastructure players like SPML Infra having a proven execution track record.

### Execution Track Record

To put the same in perspective, SPML Infra has managed and implemented over 650 projects across India on an engineering, procurement and construction (EPC), public private partnership (PPP) and build-own-operate-transfer (BOOT) basis. To list down few important factors and parameters of the company:

- Among the world's top 50 private water management companies
- Already executed more than 10,000 km of cross-country pipelines
- Has helped more than 800,000 households get connected to electricity
- Already established 5,000 MLD of water pumping stations
- Has helped 20,000 villages to get electrified

- Constructed more than 2,000 mild water treatment plants
- Executed and built 1,000+ mild sewage treatment plants
- Built more than 1,500 km of roads and highways.

In addition, there is a 500+ km sewerage network being executed by the company and 500,000 smart water meters installed. Not many in the infrastructure field have got such a long list of project execution and that too across various segments.

## The Tailwinds

SPML Infra used to be a high performer as the execution track record suggests. However, there were a series of events that subsequently led the company into trouble. It was on the back of ₹2,000-2,500 crore receivables stuck in arbitration. As expected, the mounting debt further added to its woes and the company became a nonperforming asset (NPA) for lenders. Like other infrastructure companies, the working capital constraints further led to delays in project executions and subsequently reported losses. Project delays escalate the cost and with industry running on wafer-thin margins, this was to be expected.

As stated earlier, things are changing for the better. With debt restructuring in its final leg (as a formal approval is expected soon), a lot of benefits are expected to emerge. Rather, on the financial front, SPML Infra has already made a turnaround in Q2FY22. And with debt restructuring occurring soon, restructuring will help it improve its performance further. The strong financial performance for Q4FY22 suggests that the turnaround is for real.

## Debt Restructuring – Probable Plan

To put the debt restructuring plan in a simple manner, ₹1,573 crore worth of debt would be considered non-sustainable and payable over 14 years without interest. As a result, the annual interest cost will be lower by around ₹180-200 crore. As a part of the restructuring, about 1.3 crore shares are to be issued to lenders. All in all, the ₹49 crore worth rights issue will provide growth capital and impetus to the company.

## Strong Q3 and Q4 FY22 Performance

The financial performance of the company has been on a consistent growth path and for Q4FY22 on a consolidated basis the revenues stood at ₹276.01 crore. And after making a turnaround in Q2FY22, the profits increased in Q3FY22 again. The PAT at ₹2.32 crore for Q3FY22 as against loss of ₹27.42 crore in Q3FY22 shows that the performance is strong. As regards the Q4FY22 revenues, they stood at ₹229.14 crore as against ₹199.69 crore in Q4FY21. Further, the growth has been good on quarter-on-quarter basis as well. For Q3FY22 the revenues were ₹251.01 crore. Even the BITDA growth was good where EBITDA for Q4FY22 stood at ₹29 crore as against ₹9.15 crore in Q4FY21. Net profit for Q4FY22 was ₹3.67 crore as against ₹ 2.50 crore posted in Q4FY21.

For any infrastructure company it is the order book that always

matters. To put the order book in perspective, during FY21 SPML Infra has won orders worth ₹5,770 crore from esteemed clients in Odisha, Manipur and Uttar Pradesh, including several projects under the most focused scheme from the central government – the Jal Jeevan Mission. It is already executing over 40 projects in water, power, irrigation and sanitation sectors. With the debt issues being taken care of, restructuring is expected soon along with improvement in the order flows. Q4FY22 has been a strong quarter.

While the scenario for FY22 is explained, one must foresee what to expect in FY23 on the whole and FY24 onwards as well. If the current performance and order book is anything to go by, the FY23 financial estimates are as follows:

- For FY23 revenue is estimated at ₹1,200 crore and EBITDA is estimated at ₹145 crore. With debt restructuring taking place, the interest cost is expected to be around ₹40 crore. And this makes a lot of difference.
- As for FY24 estimates, revenue is expected at ₹1,800 crore, EBITDA at ₹215 crore and again the interest cost would be at ₹40 crore only.
- While it may be too early to predict estimates for FY25, given the project execution cycle right now, revenue of ₹2500 crore is expected in FY25E. The EBITDA is estimated at ₹300 crore and interest increases marginally to ₹50 crore.

## Growth Strategy and Arbitration Benefits

As a strategy, the company continues to bid for water projects aggressively for project tenders worth ₹20,000 crore with JV partners. Further, SPML Infra has won arbitration awards worth ₹700 crore in its favour. And ₹310 crore is already deposited in an escrow account. Being a legal process, those awards are challenged in a higher court. However, the case seems beneficial for the company and it is likely to win arbitration in higher courts as well. Just to put it in perspective, even the amount put in an escrow account is higher than the company's current market capitalisation.

Hence as and when the total arbitration amount is paid to the company, it would provide the much required growth capital to the company. On the macro front, almost USD 270 billion is likely to be invested in water infrastructure over the next 10 years through different schemes like piped water supply to all homes by 2024, linking of rivers, Namami Gange and PMKSY. Among all such schemes, the Nal Se Jal scheme is the government's most ambitious project to ensure every rural house gets piped water by 2024.

In terms of numbers, Nal Se Jal alone will need ₹6.3 trillion as investment. This provides a huge opportunity for a company that has a great execution track record. To sum it up, with debt restructuring planned, the company's financial and operational performance is expected to grow by leaps and bounds. While at present not much seems to be positive, things are changing for better. Available at throwaway valuations, it would be a good opportunity for investors to have a look at the company from a long-term perspective.