

**Introduction**

Generic Engineering Construction & Projects Limited (GECPL) is a company focused on general contracting; engineering, procurement and construction; and project management. The projects span across commercial, residential, industrial, and health and leisure with a greater focus on special projects like pharma, data centers, and cold storage facilities.

<b>Key Market Indicators</b>	
Latest Date	08-Jul-2020
Latest Price (Rs)	55.45
52 Week High (Rs)	110.00
52 Week Low (Rs)	39.00
Beta	0.46
Face Value (Rs)	5.00
Industry PE	16.00
TTM PE (x)	15.42
Price/BV(x)	1.34
Dividend Yield (%)	0.09
Market Cap (Rs. In Crores)	233.66
Latest no. of shares (In Crores)	4.21

**Source: Ace Equity**

<b>Inc/Exp Statement</b>			
<b>Description</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>9M FY 2020</b>
Net Sales (Rs. Cr)	138.32	202.01	150.56
Total Income (Rs. Cr)	138.98	203.65	151.08
Total Expenditure (Rs. Cr)	118.64	172.63	135.61
PBIDT (Rs. Cr)	20.33	31.01	23.39
PAT (Rs. Cr)	11.50	15.62	10.67
Dividend (%)	1.00	1.00	-
Adj. EPS(Rs)	3.16	3.87	2.62

**Source: Ace Equity, Company**

## **Why We Like the Company**

### **Specializes in Small Ticket-size Projects**

GECPL's sweet spot lies in projects with a ticket size of ₹ 25 - 100 crores. As per interactions with the management there is enough business in this segment for them to sustain growth. Focus on smaller projects and hence smaller developers has allowed payments to be collected faster as according to the Company payments can be easily collected from smaller developers rather than bigger ones. Since they focus only on small orders, they don't always have to bid for projects like in the case for larger ones. This has led to them having a one on one relationship with builders and hence they don't always have to quote the lowest price which aids in them getting higher margins.

### **Focus on Industrial Projects to Increase**

Seeing that business growth (in residential as well as in industrials) was not very strong, they focused more on the industrial segment as it was more conservative than the residential segment. They said that what makes an industrial project more conservative is that the term loan is tied up and all approvals are upfront compared to a residential project which has to take approvals at regular intervals as the project progresses. Margins are also higher in this segment and hence this will add to the profitability going forward.

### **Poised to Capture Market Share of Unorganised Players**

With the shift towards organized players, companies such as GECPL will benefit as clients prefer having business relations with organised players. The Company has focused on building internal capabilities by following standard operating procedures (SOPs) and implementing enterprise resource planning (ERP) software and environment, health and safety (EHS) norms. Being listed, the Company follows labour laws of the Employees' State Insurance Corporation (ESIC) and the Employees' Provident Fund Organisation (EPFO) and hence is a preferred choice among clients (especially MNC ones).

### **Special Projects and Geographical Expansion**

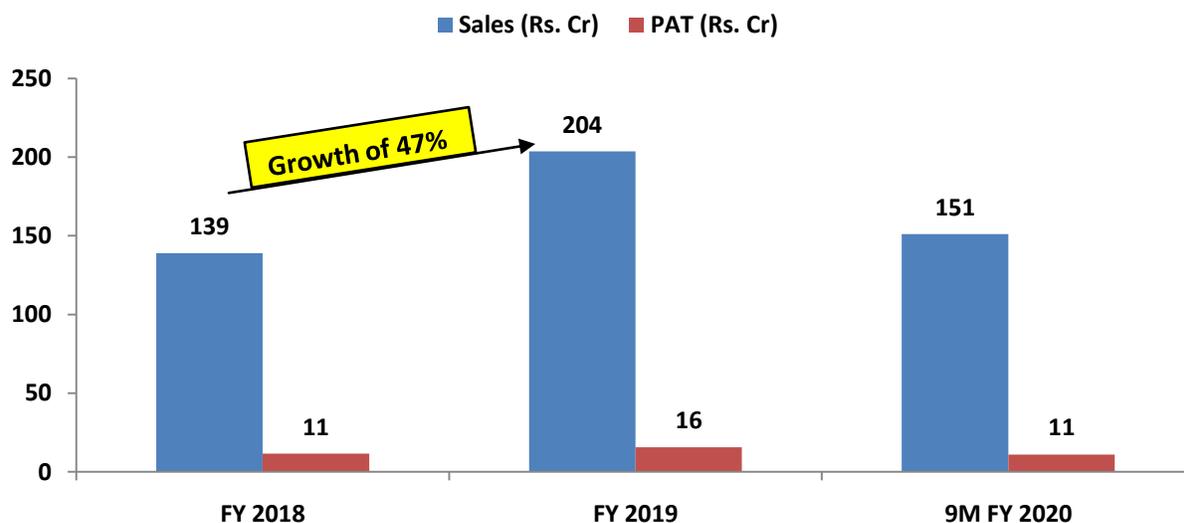
GECPL has also made major forays into the construction of special projects such as hospitals, cold storage facilities, educational institutes, and so on. The Company has expertise in constructing cold storage facilities up to the range of -40° C. GECPL has also started venturing into markets outside its core MMR region. Now, the Company has a geographical presence in Karnataka and Goa. In Sept. 2019, GECPL received an order worth ₹ 15.21 Cr from IBIS Styles located at Goa.

### **Earnings Growth**

GECPL is currently taking on projects which will help them pre-qualify for bigger projects which will lead to them increasing their bidding capacity from ₹ 200 crore per project to ₹ 400 crore per project in the industrials segment. The Company's total order book is poised to touch ₹ 2,500 crores by the end of FY 2021. The rise in the book-to-bill ratio from 4x to 6x gives healthy earnings visibility for the near term. With no equity dilution on the cards for the next two years and aided by higher industrial segment margins, earnings are poised to grow. Margins and return ratios have seen a healthy improvement over the past two years and based on interactions with the management are poised to go higher given the rise and change of mix in the order book.

**Healthy Financial Performance**

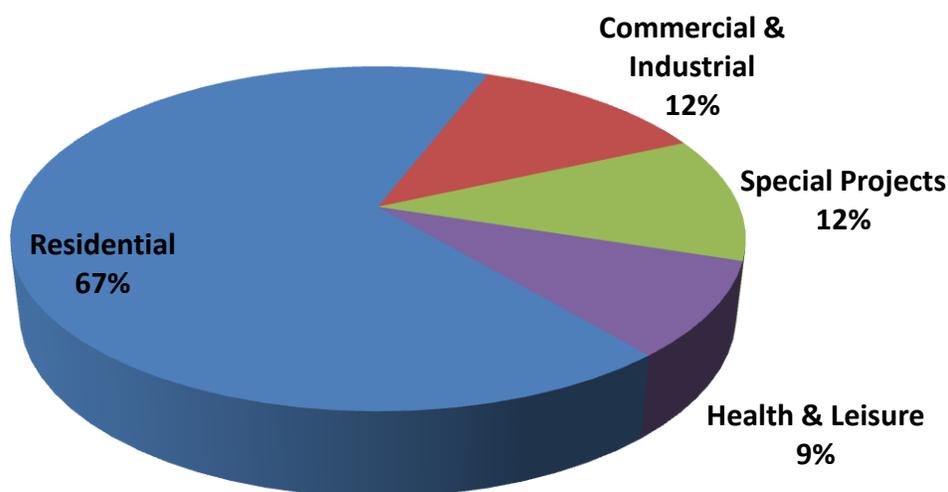
**Exhibit 1: Sales and Profits**



*Source: Ace Equity, Company*

The Company's sales and profits have grown at 47% and 46% respectively over the last year on the back of strong order inflows and execution. Margins and return ratios have remained stable over the said period.

**Exhibit 2: Order Book Break-up**



*Source: Company*

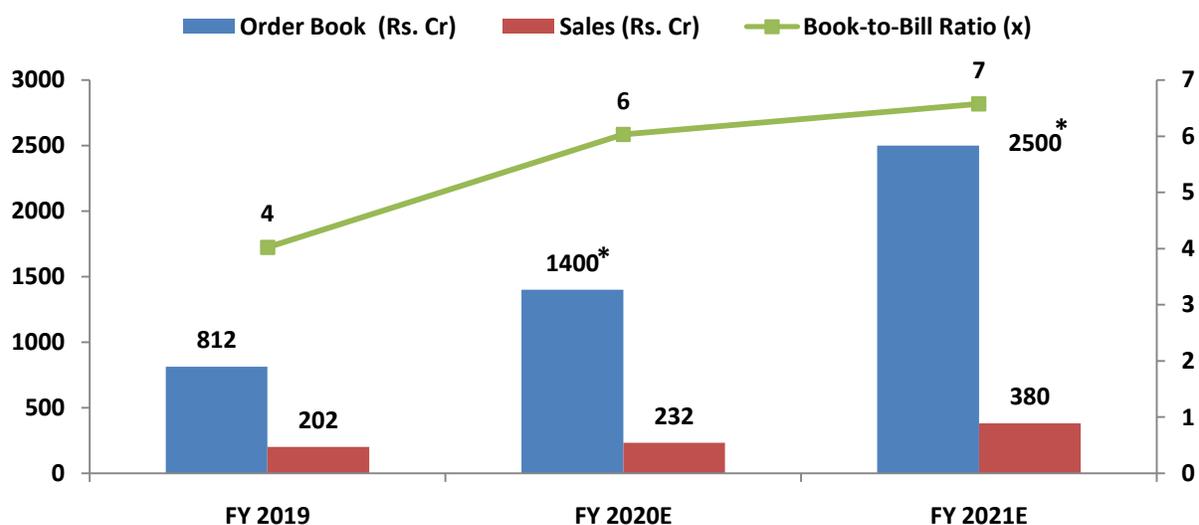
### Exhibit 3: Margins and Profitability Ratios

DESCRIPTION	FY 2018	FY 2019
PBIDTM (%)	14.70	15.35
PATM (%)	8.31	7.73
RONW (%)	16.26	13.00
ROCE (%)	19.50	18.46

*Source: Ace Equity*

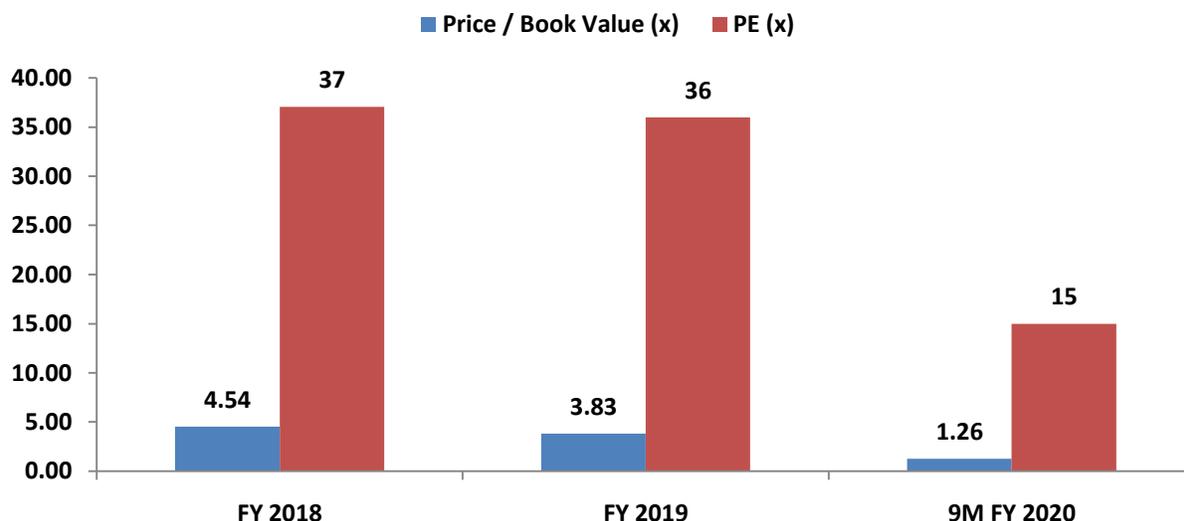
### Valuations and View

#### Exhibit 4: Book-to-Bill Ratio



*Source: Mangal Keshav Securities (\* Management guidance)*

## Exhibit 5: Valuations



Source: Ace Equity

## Exhibit 6: Estimates

Details	FY 2019	FY 2020E	FY 2021E
Sales (Rs. Cr)	202	232	380
PAT Margins (%)	8	8	8
PAT (Rs. Cr)	15.62	19	30.40
EPS (Rs.)	3.9	4.7	7.5
P/E (x)	36	18	14
Market Price (Rs.)	139	85	106

Source: Mangal Keshav Securities and Management guidance

Given the company's specialization and asset light model; increasing focus on the industrial segment; market share gains; and possible earnings growth we feel that GECPL is a BUY with a target price of ₹ 106.

**Mangal Keshav Securities Limited - 501, Heritage Plaza, Opp. Indian Oil Colony, J.P. Road, Andheri (West), Mumbai - 400053**

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