

Institutional Equity Research

H.G. Infra Engineering

Infrastructure | India

Initiating Coverage | March 19, 2018

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN
Market Cap. (Rs bn)	19.6
Free Float (%)	26
Shares O/S (mn)	65

BUY 

Target Price: Rs375

Moving towards the Big League

H.G. Infra Engineering (HGI), a newly listed company, is primarily engaged in EPC, civil construction works and related infrastructure projects on item rate and lump sum basis. Roads & Highways segment – which is HGI's key area of operation – forms a dominant portion of its total order book. While current order book of Rs50.6bn (4.8x FY17 revenue) provides robust growth visibility, HGI is expected to add big chunk of orders to its kitty, led by improvement in financial pre-qualification and enormous opportunity in Roads & Highway segment. Further, diversification into newer geographies and water segment is likely to propel HGI to sustain growth, in our view. **Expecting HGI's revenue and earnings to clock 31% and 46% CAGR, respectively through FY17-FY20E, we initiate coverage on the stock BUY recommendation and one-year Target Price of Rs375.**

Huge Opportunity in Roads & Highway Segment Augurs Well

The visible development in Roads & Highways space along with likely further pick-up in projects awarding across the country and government's increased allocation for the segment are likely to aid HGI to improve its order book further. Further, improvement in financial pre-qualification post the fund raising through IPO is expected to result in higher order book in coming quarters.

Impressive Order Book Growth Offers Visibility

HGI witnessed an exponential improvement in its order book to Rs40bn in FY17 from Rs11bn in FY15 (94% CAGR). Its current order book at Rs50.6bn (4.8x of FY17 revenue) including L1 of Rs13.5bn provides a healthy revenue visibility. We expect HGI to witness an order inflow of Rs25bn and Rs30bn for FY19E and FY20E, respectively. Considering fund-based limit of Rs4.3bn and non-fund based limit of Rs5.0bn, we believe it should not face any financial constraint to execute the current order book.

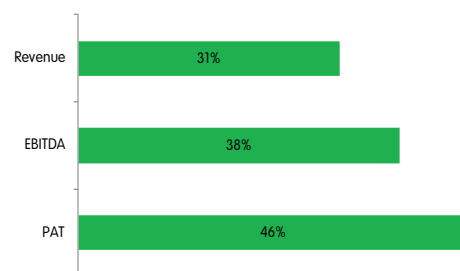
Diversification into New Geographies Bodes Well

In order to mitigate concentration risk and exploit the upcoming infrastructure opportunities in other geographies, HGI has been geographically diversifying for last couple of quarters. It currently operates in six states including Uttar Pradesh and it intends to selectively expand into other states, which is expected to aid HGI to sustain growth, going forward.

Promising Growth on the Cards; Initiate with BUY

HGI has been gaining a healthy traction for last two years on the backdrop of consistent order book addition and improving execution expertise. Further, with the improvement in financial pre-qualification post fund raising and enormous opportunity in its key vertical, we expect HGI's revenue and earnings to clock 31% and 46% CAGR, respectively through FY17-FY20E. While HGI did not provide any listing gain to its subscribers, we believe current valuations at 17.3x / 12.9x EPS of FY19E / FY20E, respectively, look attractive considering less than 1x PEG ratio and strong return ratios. **Hence, we initiate our coverage on the stock with BUY recommendation and one-year Target Price of Rs375 (16x FY20 EPS).**

CAGR (FY17-20E)



Shareholding Pattern (%)	Dec'17	Post IPO
Promoter	100	74
Public	-	26

Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Sales	9,703	12,615	16,798	21,606
EBITDA	1,198	1,774	2,402	3,122
Net Profit	493	782	1,132	1,524
EPS (Rs)	7.6	12.0	17.4	23.4
DPS (Rs)	-	-	2.0	3.0
P/E (x)	39.8	25.1	17.3	12.9
P/B (x)	3.1	3.5	3.0	2.5
EV/EBITDA	6.2	11.8	8.7	6.8
RoE (%)	33.0	21.4	18.8	21.3
Divi. Yield (%)	-	-	0.7	1.0

Source: Company, RSec Research

Research Analyst: Binod Modi

Contact: 022 3320 1097

Email: binod.modi@relianceada.com

Institutional Equity Research

H.G. Infra Engineering

Initiating Coverage | India

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN

BUY 

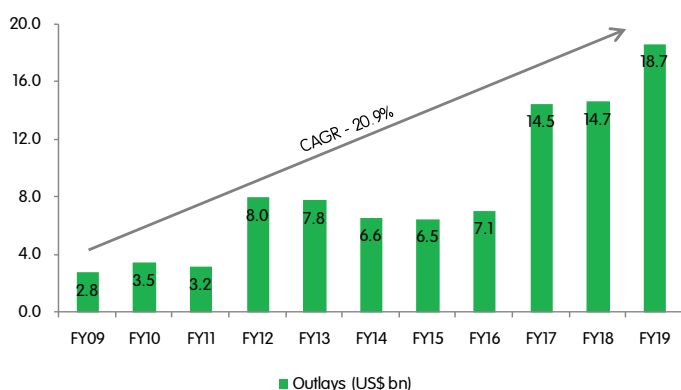
Target Price: Rs375

Investment Rationale

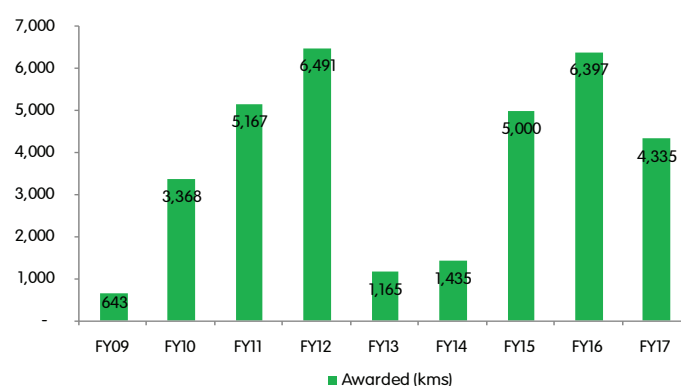
Huge Opportunity in Roads & Highway Segment Augurs Well

The visible development in Roads & Highways space along with likely further pick-up in projects awarding across the country and government's increased allocation for the segment are likely to aid HGI to improve its order book further. Moreover, improvement in financial pre-qualification post the fund raising through IPO is expected to result in higher order book in coming quarters.

Notably, budgetary allocation for Roads & Highways increased at a robust 20.9% CAGR through FY09-FY19. In Union Budget 2018-19, the Government has allocated Rs1.21trln (US\$18.7bn) for the Road sector.

Exhibit 1: Outlays for Roads & Highways in Union Budgets


Source: Industry; RSec Research

Exhibit 2: Projects Awarded by NHAI


Impressive Order Book Growth Offers Visibility

Consistent improvement in execution expertise along with improvement in technical and financial pre-qualification criterion enabled HGI to grow its order book exponentially to Rs40bn in FY17 from Rs11bn in FY15 (94% CAGR). Its current order book at Rs50.6bn (4.8x of FY17 revenue) including L1 of Rs13.5bn provides a healthy revenue visibility, in our view.

HGI is currently pre-qualified to bid for Roads & Highway projects of NHAI and Ministry of Road Transport & Highways worth up to Rs8bn on in own. We expect HGI to add orders worth Rs25bn and Rs30bn for FY19E and FY20E, respectively, as against the Management's guidance of Rs30bn and Rs40bn, respectively.

Notably, 44% of HGI's total order book is fixed price contracts and Rs1bn of orders book (2% of OB) comes from the JV. Further, HGI has recently secured a HAM project (part of L1) worth Rs5.6bn in Rajasthan. While HGI is still pursuing select HAM projects, it expects share of HAM projects in order book to contain within the range of 25%.

Considering fund-based limit of Rs4.3bn and non-fund based limit of Rs5.0bn, we believe it should not face any financial constraint to execute the current order book.

Institutional Equity Research

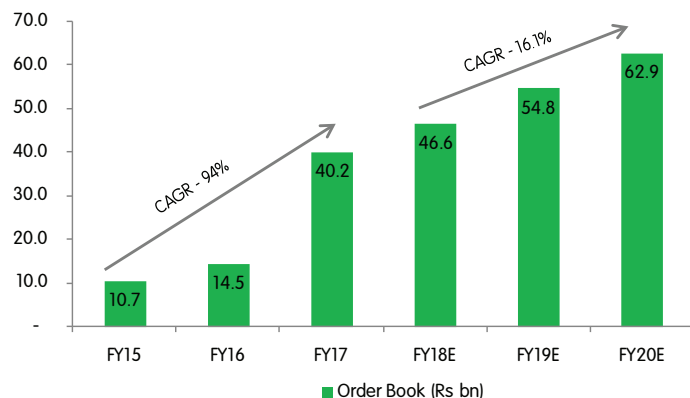
H.G. Infra Engineering

Initiating Coverage | India

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN

BUY 

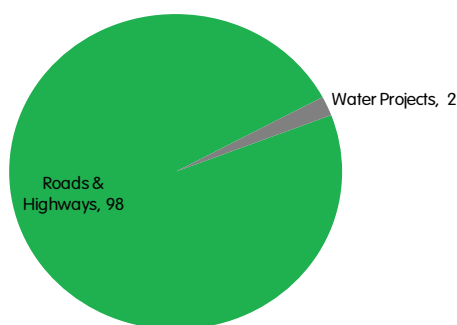
Target Price: Rs375

Exhibit 3: Order Book Witnessed Robust Growth


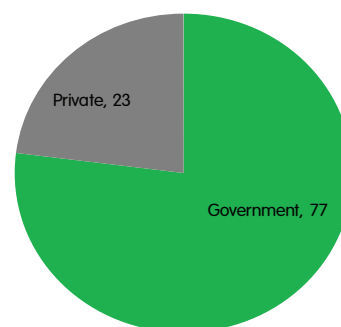
Source: Company; RSec Research

Exhibit 4: Top 5 Projects Under Execution

Projects	Appointed Date	Value (Rs bn)
Gulabpura- Chittorgarh Section-2	Nov-17	6.4
Chittorgarh- Udaipur Section of NH-76 Sec- 1	Jul-17	4.8
Nagpur-Katol- Warud State Highway	Jun-17	3.1
Nandurbar - Prakasha- Sahada-Khetia State Highway	Jun-17	3.0
Amaravati-Nandgaon-Morshi-warud-Pandhurna	Jun-17	2.9

Exhibit 5: Segmental Break-up of Order Book (%)


Source: Company; RSec Research

Exhibit 6: Clientele Break-up of Order Book (%)


Diversification into New Geographies Bodes Well

In order to mitigate the risk of excessive dependence on particular geography and exploit the upcoming infrastructure opportunities in other geographies, HGI has been geographically diversifying for last couple of quarters. It currently operates in six states including Uttar Pradesh and it intends to selectively expand its presence in other states.

It currently expects that a significant portion of its geographic expansion will be in states i.e. Gujarat, Punjab and Madhya Pradesh, where it has favourable geographic and climatic conditions. Through further diversification of geographical operations, HGI is expected to hedge against concentration and related risks.

Exhibit 7: A Snapshot of Statewise Order Book

States	Order Book (Rs bn)	% of OB
Rajasthan	26.7	52.8
Uttar Pradesh	0.5	1.1
Haryana	5.8	11.6
Uttarakhand	0.5	1.0
Maharashtra	16.6	32.7
Arunachal Pradesh	0.4	0.9
Total	50.6	100

Source: Company; RSec Research

Institutional Equity Research

H.G. Infra Engineering

Initiating Coverage | India

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN

BUY 

Target Price: Rs375

Foray into Water Segment Augurs Well

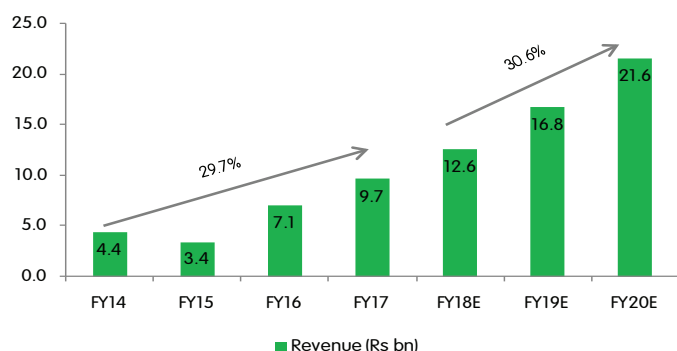
While HGI has proven its expertise in Roads & Highway segment by successfully executing various projects over the years, it has diversified into water pipeline segment and is currently undertaking 2 water supply projects on turnkey basis in Rajasthan. Renewed thrust of the Government on both the segments offers enormous opportunities for HGI. While the opportunities in Roads & Highways segments are already visible, we may see a robust ordering from irrigation, waterways and development of smart cities, going forward. Hence, any potential up-tick in order inflow from this segment is expected to aid HGI to witness a sustainable growth, in our view.

Robust Financial Performance & Financial Strength

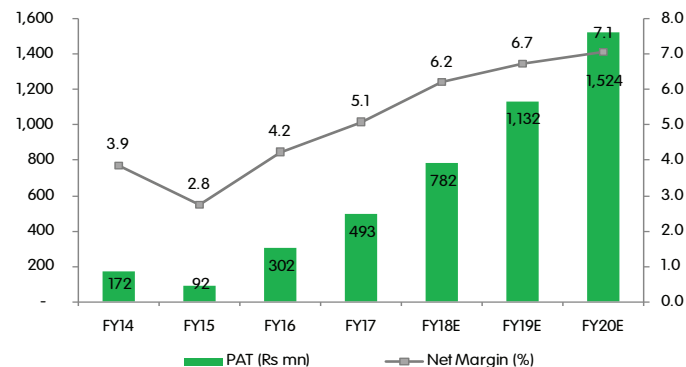
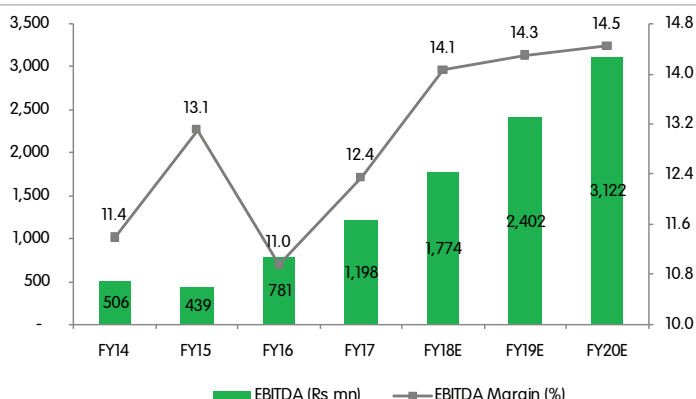
An experienced management team, efficient working capital management, consistent addition of quality orders and prudent bidding strategy aided HGI to report robust numbers over the last 3 years. HGI's reported revenue and PAT clocked 30% and 42% CAGR, respectively over FY14-FY17. Further, light balance-sheet with efficient working capital management and asset-light business model enabled HGI to generate better-than-the-industry average return ratios in the range of 30-40% over last 3 years.

We believe that with the possible improvement in order book size with more geographies and segmental diversification and huge imminent opportunities in Roads & Highways and water pipeline projects, HGI is expected to report a consistent healthy growth, going forward. Revenue, EBITDA and PAT are expected to witness 31%, 39% and 46% CAGR, respectively through FY17-FY20E.

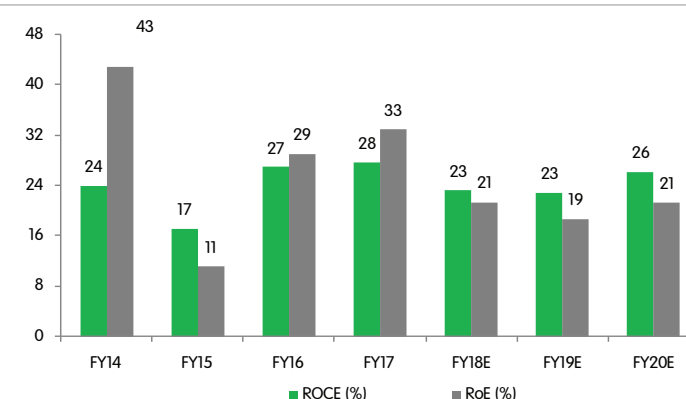
Notably, HGI's EBITDA margin significantly spiked in 1HFY18 due to new accounting standard, as revenue booking is done net off indirect taxes. Further, gradual shift from a prime sub-contractor to a lead contractor also aided margin expansion. We expect the same to remain in the range of 14-15% over the years.

Exhibit 8: Revenue Profile Over the Years


Source: Company; RSec Research

Exhibit 9: Net Profit and Margins Over the Years

Exhibit 10: EBITDA and Margins Over the Years


Source: Company; RSec Research

Exhibit 11: Snapshot of Return Ratios


Institutional Equity Research

H.G. Infra Engineering

Initiating Coverage | India

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN

BUY 

Target Price: Rs375

Key Risks

- Higher dependence on road projects.
- Execution risk due to regulatory and social interferences.
- Cost overrun as 44% of total order book are fixed price contracts.
- Higher contingent liabilities (>200% of net worth).

Exhibit 12: Peers Comparison

	Revenue (Rs bn)		EBITDA Margin (%)		PAT (Rs bn)		PE (x)		RoE (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
KNR Construction	22.0	25.7	16.9	17.4	2.4	2.4	17.2	17.2	19.4	16.4
Dilip Buildcon	83.2	97.1	18.6	18.2	6.9	8	19.1	16.8	25.2	22.9
J Kumar Infra	23.4	28.0	16.2	16.4	1.7	2.4	13.1	9.7	11.2	13.6
JMC Projects	32.3	36.7	10.2	10.1	1.2	1.4	16.3	13.8	13.8	14.6
PNC Infra.	26.4	35.8	13.6	13.7	2.1	2.6	18.9	15.2	11.1	12.3
HG Infra	16.8	21.6	14.3	14.5	1.1	1.5	17.3	12.9	18.8	21.3

Source: Bloomberg, RSec Research

Institutional Equity Research

H.G. Infra Engineering

Initiating Coverage | India

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN

BUY 

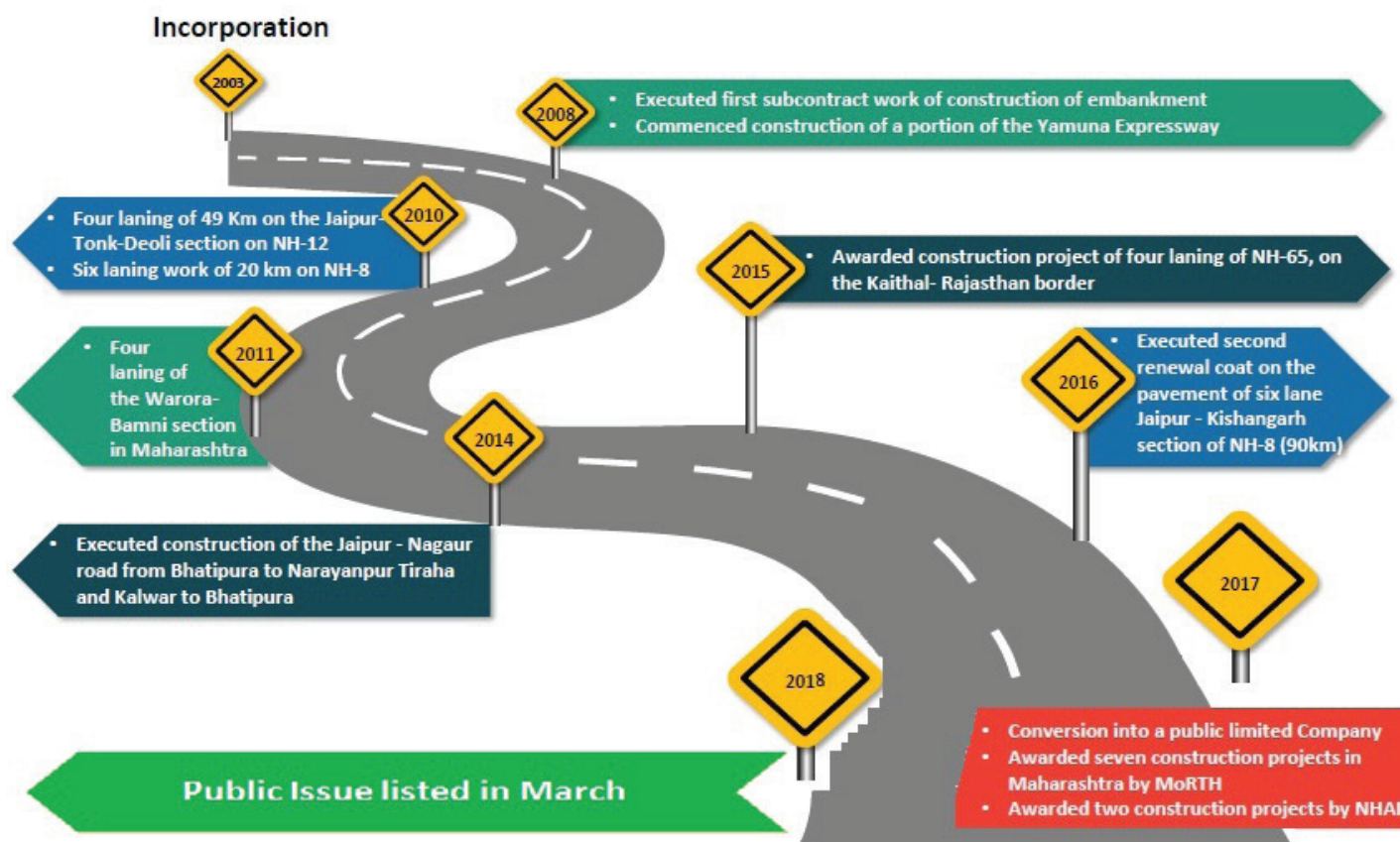
Target Price: Rs375

Company Overview

The Company was incorporated on January 21, 2003 as HG Infra Engineering Pvt. Ltd. Pursuant to the conversion of it to a public limited company, its name was changed to HG Infra Engineering Ltd. (HGI) on June 8, 2017.

HGI is an infrastructure construction, development and management company with extensive experience in road projects including highways, bridges and flyovers. Its main business operations include: (i) providing Engineering, Procurement & Construction (EPC) services on a fixed-sum turnkey basis and; (ii) undertaking civil construction and related infrastructure projects on item rate and lump-sum basis, primarily in the road and highway sector. It has also forayed into executing water pipeline projects and is currently undertaking two water supply projects in Rajasthan on turnkey basis.

Exhibit 13: Company Milestones



Source: Company

Institutional Equity Research

H.G. Infra Engineering

Initiating Coverage | India

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN

BUY 

Target Price: Rs375

Profit & Loss Statement

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
Income	9,703	12,615	16,798	21,606
% yoy growth	36.2	30.0	33.2	28.6
Operating Expenses	8,505	10,841	14,396	18,484
EBIDTA	1,198	1,774	2,402	3,122
EBIDTA Margin (%)	12.4	14.1	14.3	14.5
Depreciation & Amortization	256	370	500	615
Finance Costs	193	261	281	286
Other Income	37	42	93	88
PBT before excep items	786	1,185	1,715	2,308
Extraordinary Items	-	-	-	-
PBT	786	1,185	1,715	2,308
Tax	294	403	583	785
% Tax	37.3	34.0	34.0	34.0
Net Profit- Reported	493	782	1,132	1,524
YoY Growth (%)	63.3	58.7	44.7	34.6
Net Profit Margin (%)	5.1	6.2	6.7	7.1

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
Sources of Funds				
Share Capital	180	652	652	652
Reserves & Surplus	1,579	4,889	5,865	7,154
Total Shareholder's funds	1,759	5,541	6,516	7,805
Borrowings	2,037	2,500	2,600	2,600
Non- Current Liabilities	303	402	529	691
Current Liabilities	1,282	1,761	3,264	4,261
Total Liabilities	5,380	10,203	12,909	15,358
Application of Funds				
Gross Fixed Assets	3,011	4,211	5,311	6,411
Less: Acc. Depreciation	967	1,337	1,837	2,453
Net Fixed Assets	2,044	2,874	3,474	3,958
CWIP	7	350	250	150
Deferred Tax Assets (Net)	20	22	22	22
NC Investments	4	5	505	1,005
Inventories	489	917	1,209	1,578
Sundry Debtors	1,132	1,529	2,015	2,630
Other Current Assets	596	1,834	2,216	2,630
Cash & Bank Balances	72	1,207	1,328	940
Loans & Advances	782	1,038	1,368	1,786
Total Current Assets	3,070	6,525	8,135	9,565
Other Non-Current Assets	235	428	524	658
Total Assets	5,380	10,203	12,909	15,358

Institutional Equity Research

H.G. Infra Engineering

Initiating Coverage | India

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN

BUY 

Target Price: Rs375

Cash Flow Statement

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
PBT	830	1,185	1,715	2,308
Depreciation	256	370	500	615
Net Change in Working Capital	(479)	(1,934)	46	(792)
Others	(4)	-	-	-
Interest	189	261	281	286
Tax Paid	(246)	(405)	(583)	(785)
Net Cash from Operating Activities	544	(523)	1,958	1,633
Capex	(1,151)	(1,543)	(1,000)	(1,000)
Sale / (Purchase) of Investments	(75)	-	-	-
Others	93	(1)	(500)	(500)
Net Cash used in Investing Activities	(1,134)	(1,544)	(1,500)	(1,500)
Borrowings (Net)	809	463	100	-
Issue of Share Cap.	-	3,360	-	-
Dividend Paid	-	-	(156)	(235)
Finance Cost	(189)	(261)	(281)	(286)
Others	-	(360)	-	-
Net Cash used in Financing Activities	620	3,203	(337)	(521)
Net Increase/ (Decrease) in Cash	31	1,135	121	(388)

Key Ratios

Y/E Mar	FY17	FY18E	FY19E	FY20E
Valuation Ratio (x)				
P/E	39.8	25.1	17.3	12.9
P/CEPS	26.2	17.0	12.0	9.2
P/BV	3.1	3.5	3.0	2.5
EV/EBIDTA	6.2	11.8	8.7	6.8
EV/Sales	0.8	1.7	1.2	1.0
Dividend Payout (%)	-	-	11.5	12.8
Dividend Yield (%)	-	-	0.7	1.0
Per Share Data (Rs)				
EPS (Basic)	7.6	12.0	17.4	23.4
EPS (Diluted)	7.6	12.0	17.4	23.4
CEPS	11.5	17.7	25.0	32.8
DPS	-	-	2.0	3.0
Book Value	98	85	100	120
Returns (%)				
RoCE	27.7	23.3	23.0	26.3
RoE	33.0	21.4	18.8	21.3
Turnover ratios (x)				
Asset Turnover (Gross block)	3.2	3.0	3.2	3.4
Inventory (days)	21	30	30	30
Receivables (days)	49	50	50	50
Payables (days)	27	27	28	28
WCC (days)	43	53	52	52

Institutional Equity Research

H.G. Infra Engineering

Initiating Coverage | India

CMP* (Rs)	301
Upside/ (Downside) (%)	25
Bloomberg Ticker	HGINFRA IN

BUY 

Target Price: Rs375

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.