

9 November 2018

H G Infra Engineering

*A growth play, with good potential; initiating, with a Buy*Rating: **Buy**

Target Price: ₹274

Share Price: ₹219

A consistent grower, HG Infra has had a phenomenal run, rising from a ~₹110m turnover in FY03 to ~₹13.9bn in FY18, translating to strong CAGR growth. Even with increasing size, its revenue CAGR is impressive, with the past-five year revenue CAGR at ~26%, and ~19% anticipated for FY18-20. With the sturdy assurance of its ~₹49bn order book, no dearth of opportunities, strong fundamentals and manageable debt, it seems all set to position itself as the go-to growth company in road infrastructure. We, hereby, initiate coverage, with a Buy and a TP of ₹274.

Not averse to acting as sub-contractor. HG Infra aims to continue its sub-contracting business, all the while aiming to achieve a split of 65-35 in favor of primary contracts. This opens up the potential of two revenue streams for the road-infra-concentrated operator and would enable it to harness the various road opportunities and benefit from them, either way.

Order book and pipeline provide ample assurance. At end-Q2, the ~₹49bn order book implied ~2.9x book-to-bill. In Q1, the company secured orders of ~₹11.7bn and aims at a further ~₹25bn-30bn to end-FY19 with (at least) a ~₹60bn order backlog. While EPC is its preferred choice, if required, select bidding for hybrid annuities is not ruled out. It has identified a potential bid pipeline of ~₹250bn-300bn, implying no dearth of opportunities.

WC cycle up. The cash conversion cycle y/y lengthened by ~33 days to ~76 in FY18. This can be attributed, in part, to the rising scale of operations (debtor days incl. unbilled revenues up significantly at ~166days) and recent changes in the indirect-tax regime. While the cycle seems more respectable than its peers, further deterioration could signal a rising risk factor.

Valuation. At the ruling price, the stock trades at (excl. investments) PER of 9.6x FY20e EPS, against our assigned multiple of 12x. We hereby initiate coverage of the company, with a Buy rating (TP: ₹274). **Risk:** Delay in execution.

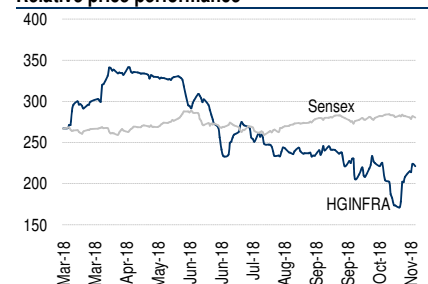
Key financials (YE Mar)*	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	7,124	10,560	13,927	19,133	23,205
Net profit (₹ m)	302	534	843	1,089	1,414
EPS (₹)	5.6	9.9	12.9	16.7	21.7
Growth (%)	177.0	77.0	30.9	29.3	29.8
PE (x)	48.4	27.3	23.1	16.4	10.1
EV / EBITDA (x)	19.9	13.0	10.2	7.2	4.7
PBV (x)	11.9	8.3	3.6	2.2	1.8
RoE (%)	20.2	35.7	23.5	18.4	19.8
RoCE (%)	20.0	32.9	24.1	23.4	26.8
Net debt / equity (x)	0.8	0.9	0.3	0.3	0.2

Source: Company, Anand Rathi Research * Standalone financials

Key data	HGINFRA IN / HGIN.BO
52-week high / low	₹356 / 170
Sensex / Nifty	35164 / 10583
3-m average volume	\$0.2m
Market cap	₹14bn / \$198.6m
Shares outstanding	65m

Shareholding pattern (%)	Sep'18	Jun'18	Mar'18
Promoters	73.7	73.7	73.7
- of which, Pledged	-	-	-
Free float	26.3	26.3	26.3
- Foreign institutions	1.3	0.4	-
- Domestic institutions	16.1	16.6	17.2
- Public	8.9	9.3	9.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Order backlog	14,463	40,191	46,071	56,938	63,733
Order inflow	10,910	35,431	19,807	30,000	30,000
Net revenues	7,124	10,560	13,927	19,133	23,205
Growth (%)	112.5	48.2	31.9	37.4	21.3
Direct costs	5,883	8,804	10,937	15,025	18,239
SG&A	461	511	909	1,266	1,507
EBITDA	781	1,244	2,081	2,842	3,458
EBITDA margins (%)	11.0	11.8	14.9	14.9	14.9
Depreciation	183	256	539	747	840
Other income	24	34	47	72	40
Interest expenses	160	189	401	516	517
PBT	461	834	1,188	1,651	2,142
Effective tax rate (%)	34.6	35.9	29.0	34.0	34.0
+ Associates / (minorities)	-	-	-	-	-
Net income	302	534	843	1,089	1,414
Adjusted income	302	534	843	1,089	1,414
WANS	54	54	65	65	65
FDEPS (₹ / sh)	5.6	9.9	12.9	16.7	21.7

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT + Net interest expense	597	988	1,542	2,094	2,618
+ Non-cash items	183	256	539	747	840
Oper. prof. before WC	781	1,244	2,081	2,842	3,458
- Incr. / (decr.) in WC	223	277	1,669	937	851
Others incl. taxes	159	300	345	561	728
Operating cash-flow	398	668	66	1,343	1,879
- Capex (tang. + intang.)	558	1,097	2,693	947	535
Free cash-flow	-160	-428	-2,627	396	1,344
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-	-	-	39	39
+ Equity raised	28	-	2,806	-	-
+ Debt raised	468	797	1,983	-1,348	248
- Fin investments	-1	-	-	253	658
- Net interest expense + misc.	82	155	355	444	476
Net cash-flow	255	214	1,807	-1,688	418

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

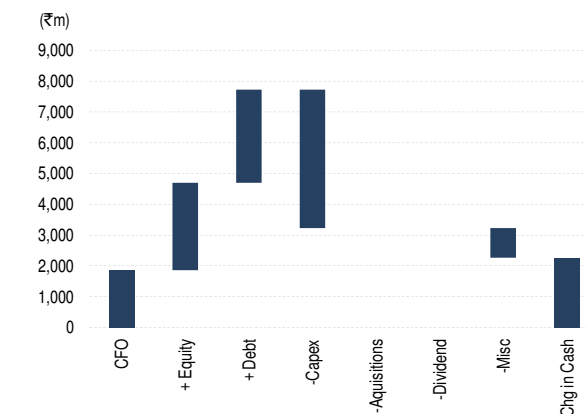
Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	180	180	652	652	652
Net worth	1,228	1,761	5,409	6,459	7,833
Debt	1,227	2,037	4,058	2,710	2,958
Minority interest	-	-	-	-	-
DTL / (Assets)	-10	-23	-61	-61	-61
Capital employed	2,444	3,775	9,405	9,107	10,730
Net tangible assets	1,162	2,044	4,119	4,372	4,081
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	48	7	86	33	18
Investments (strategic)	-	-	-	253	911
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	2,505	3,166	8,289	10,222	11,952
Cash	269	483	2,289	601	1,019
Current liabilities	1,539	1,924	5,378	6,374	7,252
Working capital	966	1,242	2,911	3,848	4,700
Capital deployed	2,444	3,775	9,405	9,107	10,730
Contingent liabilities *	3	6	4	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	48.4	27.3	23.1	16.4	10.1
EV / EBITDA (x)	19.9	13.0	10.2	7.2	4.7
EV / sales (x)	2.2	1.5	1.5	1.1	0.7
P/B (x)	11.9	8.3	3.6	2.2	1.8
RoE (%)	20.2	35.7	23.5	18.4	19.8
RoCE (%)	20.0	32.9	24.1	23.4	26.8
RoIC (%)	21.7	24.0	21.7	18.3	19.3
DPS (₹ / sh)	-	-	-	0.6	0.6
Dividend yield (%)	-	-	-	0.3	0.3
Dividend payout (%) - incl. DDT	-	-	-	3.6	2.8
Net debt / equity (x)	0.8	0.9	0.3	0.3	0.2
Receivables (days)	81	73	166	147	140
Inventory (days)	22	17	28	25	25
Payables (days)	36	40	86	75	70
CFO : PAT %	131.9	125.1	7.9	123.3	132.9

Source: Company, Anand Rathi Research *excl. performance guarantees

Fig 6 – Cumulative capital allocation: FY14 - FY18

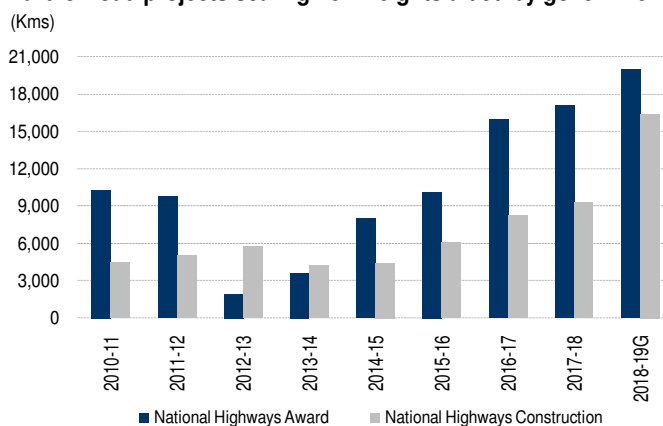


Source: Company

Industry Overview

In the past few years the infrastructure sector has seen a major boom with high levels of participation from the private-sector operators. The interest has been re-invigorated thanks to the government's push and focus on country's infrastructural development, especially on the roads sector-through precise, well-funded programmes such as Bharatmala Yojana, which envisages constructing ~35,000km of highways and roads across the country by 2022 among others.

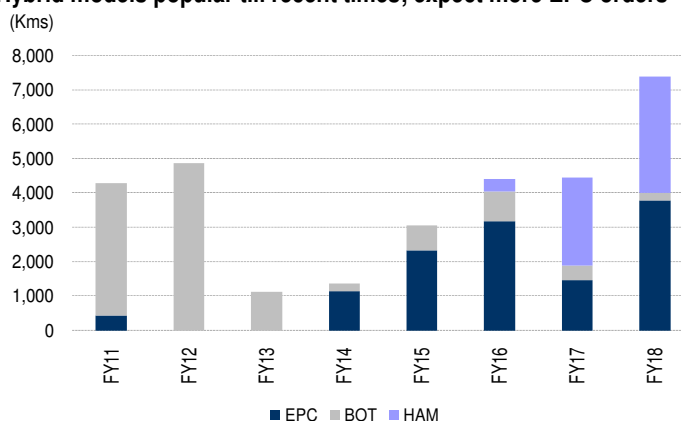
Fig 7 – Award of road projects scaling new heights aided by government funding



Source: NHAI site, Anand Rath Research

In recent years, the government had introduced hybrid-annuity orders (to execute more projects). These were a hit, with tremendous participation from private operators. Since their introduction in FY16, the share of hybrid-annuity orders in orders awarded has been rising, with orders in the BOT mode being negligible and EPC orders making up the rest.

Fig 8 – Hybrid models popular till recent times; expect more EPC orders

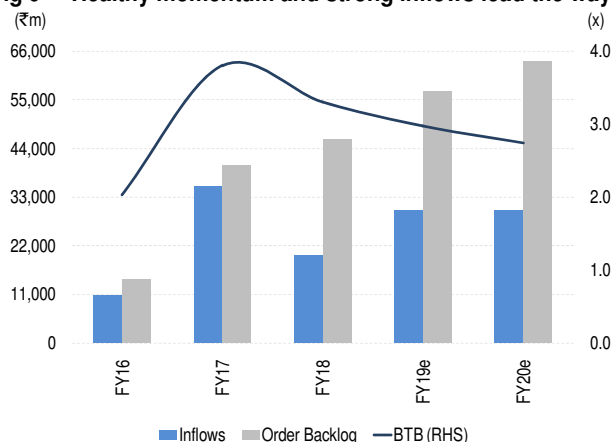


Source: NHAI site, Anand Rath Research

While scope for further orders exists, we, in line with management opinion, expect a larger share of EPC orders to hybrid annuities, given the difficulties faced by the sector to financially close acquired projects (in case of hybrid annuity model). Nevertheless, from HG Infra's perspective the outlook seems flush with opportunities as the company may choose to participate as a primary contractor or sub-contractor, benefitting either way and herein lies its greatest advantage.

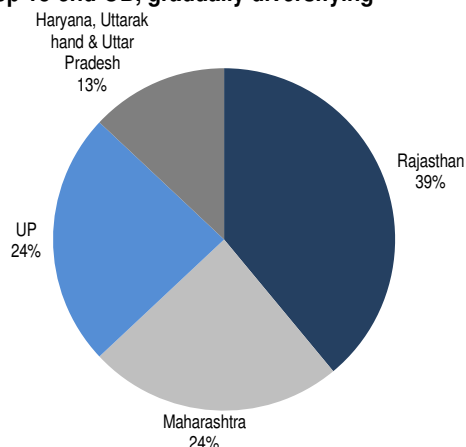
Charting the HG Infra story

Fig 9 – Healthy momentum and strong inflows lead the way



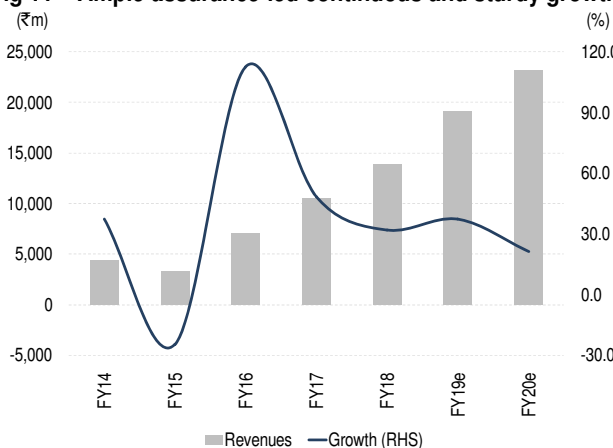
Source: Company, Anand Rathi Research

Fig 10 – Sep'18-end OB, gradually diversifying



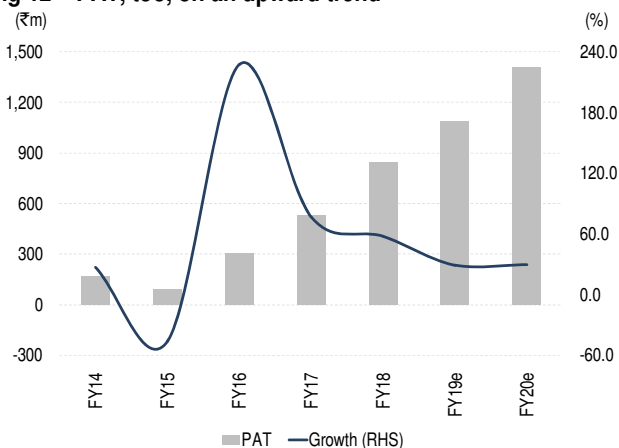
Source: Company

Fig 11 – Ample-assurance-led continuous and sturdy growth



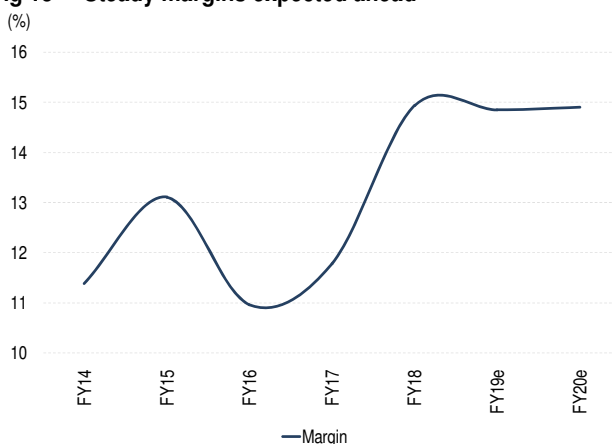
Source: Company, Anand Rathi Research

Fig 12 – PAT, too, on an upward trend



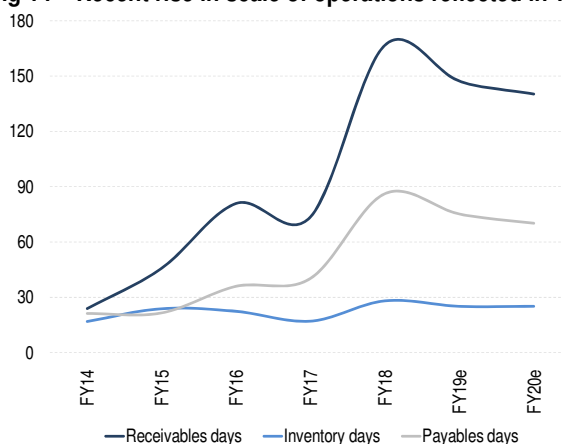
Source: Company, Anand Rathi Research

Fig 13 – Steady margins expected ahead

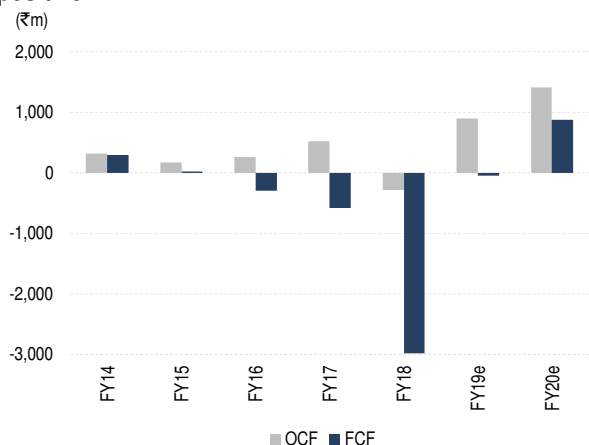


Source: Company, Anand Rathi Research

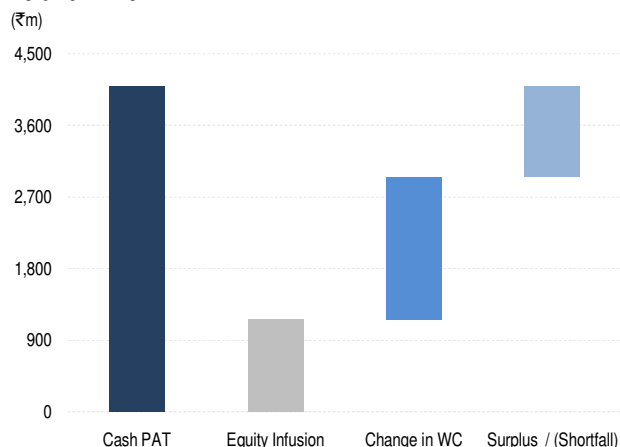
Fig 14 – Recent rise in scale of operations reflected in WC



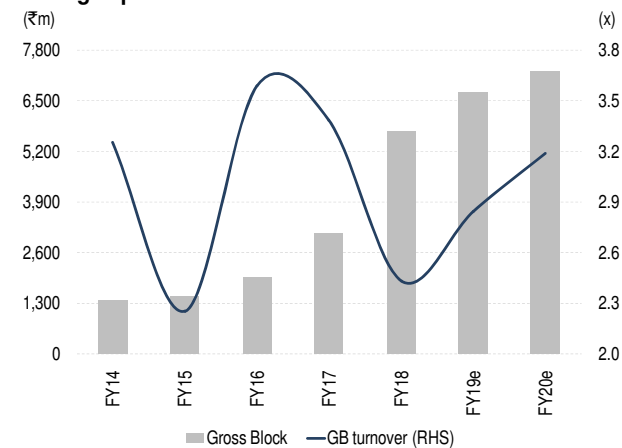
Source: Company, Anand Rathi Research

Fig 15 – Growth needed cash; expect FY20 as FCF positive

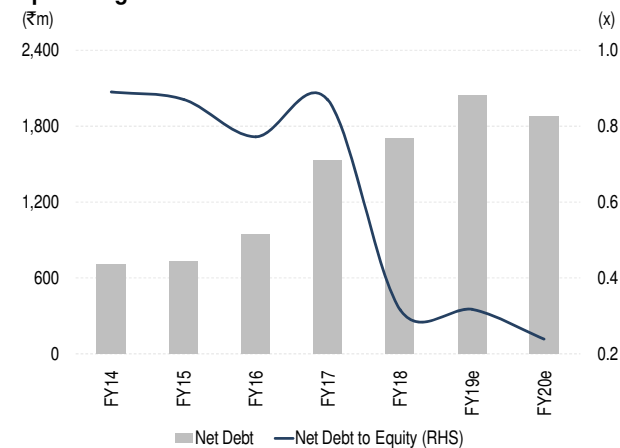
Source: Company, Anand Rath Research

Fig 16 – Cash-PAT suffices for WC and equity infusion for FY9 and FY20

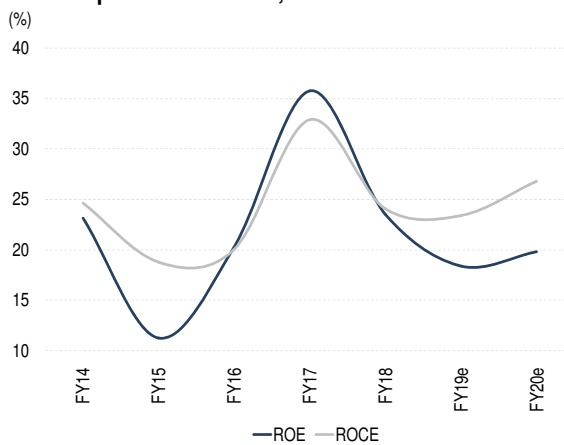
Source: Company, Anand Rath Research

Fig 17 – High capex led to asset-turnover bottom in FY18; sweating expected

Source: Company, Anand Rath Research

Fig 18 – IPO proceeds take net debt down; healthy FCF to keep leverage ratio in check

Source: Company, Anand Rath Research

Fig 19 – Dilution tempers return ratios, but still better than most

Source: Company, Anand Rath Research

Our takings from the meeting

Business model

- The company started as a sub-contractor, accepting cash contracts (EPC) from others and executing work on their behalf. However, with technical qualifications built up, it now intends to have a portfolio skewed in favour of projects as a prime-contractor.
- Predominantly based in Rajasthan, it has executed projects in six states and is now simultaneously working on ~31 projects (26 in roads and highways).
- Despite the sub-contractor tag, HG Infra has had sturdy EBITDA margins over the years (FY18: ~14.9%), which can in part be attributed to captive quarries and aggregates (~80-85% of requirement met from in-house resources).
- Over the years, it has had sub-contracts from some of the biggest names in the sector, not limited to Tata Projects, L&T and IRB.
- It further sub-contracts, mostly petty work such as dumping of earth excavated and transportation, labour supply and certain logistical aspects.
- At present, it is pre-qualified to bid for a single EPC project of ~₹11.2bn and a hybrid annuity of ~₹16.8bn.

Recent performance: Revenues up on higher scale of operations

- During Q2 FY19, the company posted ~82% y/y growth in revenues, largely due to the greater scale of operations. Sequentially, revenues were down ~5%, we attribute this to seasonal factors. In merely the two quarters of FY19, the company has delivered ~63% of its FY18 revenues.
- Over the past seven quarters, the company has on an average posted a ~14% margin. This quarter, too, it held its streak; the margin expanded slightly, by ~22bps y/y to ~14.5%. On a half-yearly basis, the EBITDA margin was up ~63bps to ~14.7%. Absolute EBITDA was up a huge ~84% y/y; on a half-yearly basis, ~62%.
- Earnings jumped ~147% y/y, to ~₹246m, reflecting that the growth phase is yet continuing. Sequentially, earnings were ~9% lower, largely due to the seasonal impact on revenues and, to some extent, to change in the job mix. On a half-yearly basis, earnings were up ~76%, to ~₹516m.

Fig 20 – Quarterly Highlights

(₹ m)	Q1 FY18	Q2 FY19	Y/Y (%)	Q1 FY19	Q/Q (%)	H1 FY18	H1 FY19	% Y/Y
Revenue from operations	2,363	4,291	81.6	4,502	(4.7)	5,673	8,793	55.0
EBITDA	338	623	84.3	671	(7.1)	799	1,294	61.9
EBITDA margins (%)	14.3	14.5	21.5	14.9	(37.9)	14.1	14.7	63.2
Other income	20	30	46.3	31	(3.2)	22	60	174.9
Interest	80	96	20.4	115	(16.7)	152	211	39.0
Depreciation	113	177	57.5	175	1.4	217	352	62.1
PBT	166	379	128.5	411	(7.7)	452	791	75.0
Tax	66	134	101.3	141	(5.2)	159	275	73.4
Effective tax rate (%)	40	35		34		35	35	
PAT	100	246	146.7	270	(9.0)	293	516	75.9

Source: Company

Order backlog and scope – Not averse to acting as a sub-contractor

- Notwithstanding its ever increasing size and improving ability to bid for large projects on its own, the company is not averse to working as a sub-contractor for some large projects. We appreciate the strategy as, not only does it afford multiple avenues for inflows but also helps it observe the practices and processes used by its larger clients. The company then uses the learnings to optimise costs / better itself.
- True to its strategy of continuing with sub-contracting work, during Q1 FY19 it had orders of ~₹11.7bn from IRB Infrastructure for the Hapur-Moradabad bypass. It had none in Q2.
 - It expects to start work on this project by Jan'19. The project's in-hand land status is ~65%.
- On 30th Sep'18, it had an outstanding order book of ~₹49bn (EPC ₹43bn, HAM ₹6bn), implying a book-to-bill of ~2.9x TTM sales.
 - Of the EPC orders, work has started on all orders barring the recently acquired Hapur-Moradabad from IRB Infrastructure.
 - Management describes the current order backlog as consisting of ~19 big-ticket projects (seven such in Maharashtra).
 - Some projects include those of ~₹6bn (World Bank-funded) in Jodhpur, two ~₹3bn MoRTH projects in Rajasthan (~₹500m executed), some minor EPC projects in Jodhpur and Jaisalmer generating ~₹400m-500m annually, among others.
- The company identifies a ~₹250bn-300bn bid pipeline from the NHAI, in which it plans to participate in the next few months.
 - Of these, hybrid annuities constitute ~₹70bn-80bn; the balance would be EPC projects.
- For sub-contracting works the company seems keen to not undertake works apart from its existing clientele namely Tata Projects and IRB Infrastructure.
- For opportunities in hybrid annuity space, the company is eyeing one or two projects in Haryana. It was also looking at certain EPC projects in Maharashtra.
- Management has identified two specific project stretches where it sees strong potential for itself: Amritsar-Jamnagar and Vadodara-Gurgaon.

These projects will be greenfield expressways, offered in EPC mode. The company stated that, with ~50%-60% of the projects passing through Rajasthan, it sees very good potential in these.

- **The Vadodara-Gurgaon project.** This stretch is part of the larger Mumbai-Gurgaon Expressway. The company expects the NHAI to invite EPC bids for this stretch soon, and plans to bid for them. It expects the project to provide overall EPC work of ~₹220bn across 25 packages (averaging ticket sizes of ~₹8bn-10bn).
- **The Amritsar-Jamnagar project.** This stretch is expected to provide ~₹350bn EPC-scope work across all packages.

Both these stretches will be up for bidding sometime in Dec'18. Management stated that land acquisition is going on relentlessly as the government aims to break ground at some of these projects as early as Mar'19.

Fig 21 – Order book highlights at a glance

Particulars	(₹ bn)	Remarks
End-Q2 order backlog	49	
- EPC	31	Work commenced in all projects except the IRB Hapur-Moradabad
- HAM	6	Maiden hybrid annuity
Big-ticket projects	19	Seven such in Maharashtra
Potential bid pipeline	250-300	Sees promise in Amritsar-Jamnagar and Vadodara-Gurgaon
- HAM	70-80	Balance will be EPC projects
Plans to enter new verticals	Yes	Rail Ministry programmes, AAI
Expected OB at end-FY19	60	Expect further inflows

Source: Company

- Besides these, to diversify its order-book, management sees scope in other verticals, airports and railways.
 - The management has stated that, barring the recently acquired Hapur-Moradabad project from IRB, work has begun in all EPC projects
 - With the AAI's push to increase and improve airport traffic, it has come out with the regional connectivity scheme (RCS) and Bharat Nirman programmes, which may add to available opportunities.
 - Also, the Rail Ministry, to improve connectivity across the country, has come out with various programmes through its various authorities (Rail Vikas Nigam, RITES, IRCON, etc.), which offer further scope.
- Management plans to further secure orders of ~₹25bn-30bn in FY19, besides the Q1 inflows, such that the end-FY19 OB is ~₹60bn.
 - Of the guided-to additional inflows, ~₹10bn are expected to be hybrid annuities, the balance EPC projects.
- Till now in Q3, the company has not announced any fresh inflows. It had submitted bids of ~₹6bn (Asian Development Bank-funded) in Rajasthan (L1 positions not yet announced).
- The company also stated that it has received the Completion Certificate (CC) for its Kaithal-Rajasthan project from IRB Infrastructure. Furthermore, it received Provisional Completion Certificates (PCC) for two NHAI projects; one in Uttarakhand (already applied for CC), the other in Rajasthan. The company has also applied for PCC status on two additional NHAI projects at Rajasthan.

Hybrid annuity project updates

- The company's maiden hybrid annuity, a ~13km stretch, provides an EPC opportunity of ~₹5.2bn.
- The company had last mentioned it had ~75% land available for this hybrid annuity (up from 57% previously) and expects to have over 80% land by the appointed date (expected sometime in Dec'18).
- Per management, the maiden hybrid annuity project requires ~₹720m of equity, of which ~₹100m-150m would be invested in FY19, the balance in subsequent years (FY20: ~₹400m). Our estimates, however, assume an infusion of ~₹253m (35% of the total infusion) in FY19. This assumption is in line with the larger trend that we have come across in terms of equity infusion for hybrid annuities.

Fig 22 – Hybrid annuity details at a glance

Particulars	Six-laning and strengthening NH2 48A / Rajeev Chowk
Project length (km)	12.7
Award date	6 th Mar'18
Financial closure	Achieved
Appointed date	Expected sometime in mid-Dec'18
Scheduled construction period	910 days
Current status	Awaiting appointed date
Concession period after COD	15 years
Bid project cost (₹ m)	6,090
Means of finance	
NHAI (₹ m)	2,430
Debt (₹ m)	2,870
Equity (₹ m)	720
O&M cost (first year) (₹ m)	0.4
Source: Company	

- Management said it has financially closed this project at ~9.8% from Tata Cleantech.
- Additional hybrid annuities, if acquired (~₹10bn), may push the total estimated equity required (incl. for the existing hybrid) to ~₹2bn.

Balance sheet

- The company has utilised a portion (~₹650m) of its IPO proceeds to retire debt; on 30th Sep'18 its standalone debt was ~₹3.95bn. It has an additional ~₹450m earmarked to retire debt, to be carried out by end-FY19.
 - Of the debt, ~₹770m are loans from promoters. These are non-interest bearing. It also includes ~₹1.4bn in working-capital loans and ~₹1.8bn in term loans.
 - The company also plans to further reduce debt by ~₹470m, and pay back ~₹500m of promoter loans, servicing them from internal accruals.
 - It has WC limits of ~₹8.5bn. It services capital loans at 8.5–8.7% and working capital at 9.7–9.8%.
- In Mar'18 the company had ~₹1.6bn in mobilisation advances (by Q2-end: ~₹0.9bn). It, however, expects further mobilisation, of ~₹1bn, in the next two or three months.
- It said that it does invoicing monthly; payment on bills raised takes approximately another month implying debtor days at ~60. At present, however, the sudden jump in receivables on account of the higher scale of operations has pushed debtor days to ~114, and ~166 including unbilled revenues.
- The aggregates/quarrying requirement is largely met in-house (~80–85%), enabling it to maintain low inventory days (~27).
- While higher operations resulted in higher trade receivables, payables too weren't all that far away. At present, payable days are ~86 (up ~46 days y/y).
- Overall, the cash-conversion cycle for FY18 is ~76 days; while the cycle seems respectable it has lengthened by ~33 days y/y. For FY19 and FY20 we expect a contraction in NWC to ~74 days (for both years).

- This would be possible on shortening of debtor days (already down ~24 days in H1 FY19 to ~90 days on quicker realisations) and its subsequent effect on payables days.

Guidance

- Management has guided to ~40% revenue growth in FY19 to over ₹20bn, and ~₹27bn-28bn for FY20.
 - It estimates a 30% revenue CAGR over the next three years.
- It aims to improve the EBITDA margin to 15.5–16% and expects profitability to improve further.
- It envisages capex of ~₹900m in FY19, of which it has already (in Q1) incurred ~₹410m, and a further ~₹190m in Q2 till now. For the balance, it believes the IPO proceeds would suffice. At present, management doesn't see the need for material capex in FY20.
- The company aims to end FY19 with ~₹2.3bn-₹2.5bn gross debt, against the previously envisaged ~₹2bn; this is because it plans not to undertake mobilisation advances at a few of its projects.
- It doesn't expect any kind of tax incentives and as be a full-tax-paying company.
- In coming years, management envisages ~65% revenue from its primary contracts and ~35% from sub-contracts. It has no plans to slow down its sub-contracting business, which would continue for the foreseeable future.

Others

- **Management outlook.** The company sees more EPC contracts than hybrid annuities coming from the government in FY19, given the difficulties faced by the sector in arranging financial closure. Also, wanting to harness the full potential of road infrastructure, it has no plans to taper down its sub-contracting business in the foreseeable future. This would enable it to play the field either way. Also, management can learn the intricacies used by its larger clients to improve itself further.
- **Digitisation push.** The company, identifying the need to fully harness its potential and overcome inefficiencies, apart from the need to maintain greater accountability, has taken the first steps toward the digital era by implementing SAP (at ~₹45m-50m). Seeing the change within, it is further adding GPS trackers in most of its equipment to enable itself to view real-time statistics pertaining to them.
- **During the defect liability period, O&M bookings initialised.** The company has, since Q1, started booking O&M revenues (during the defect liability period) of ~₹20m in Q1 and ~₹23m for Q2. For FY19, it sees ~₹160m of such revenue, with most coming in toward the second half of the year. O&M revenues are likely to aid margin expansion as management believes it would not be required to spend to the extent of the money that it would receive for the work as it is confident of the quality of its construction.
- **IPO utilisation details.** Of the ~₹3bn raised, the company has utilised most of what was earmarked under different heads: debt reduction ~₹1.2bn, capex ~₹0.9bn, other general expenses ~₹0.7bn. It incurred issue expenses of ~₹0.3bn.

Site visit

Chittogarh-Udaipur and Gulabpura-Chittogarh projects

- These two projects are contiguous length-wise, one sub-contracted by Tata Projects, the other by IRB Infra.

Fig 23 – Project details at a glance

Particulars	Chittogarh-Udaipur	Gulabpura-Chittogarh
Authority	NHAI	NHAI
Sub-contracted from	Tata Projects	IRB Infrastructures
State	Rajasthan	Rajasthan
Project length (km)	64.0	76.0
Appointed date	Jul'17	Nov'17
Scheduled construction period	730 days	910 days
Physical progress %*	26	35
Bid project cost (₹ m)	4,833	7,110
Scope of work		
Flyovers	1	4
Minor bridges	5	10
Pedestrian underpasses	12	9
Vehicular underpasses	6	6
Cattle underpasses	6	-

Source: Company * in Sep'18

- Originally, the Chittogarh-Udaipur was scheduled for completion by Jul'19. Nevertheless, accounting for the changes/ additions in scope of work, expected completion is now Sep-Nov'19.
- Generally, the company raises mobilisation advances of ~5% to 10%, and commented that, in special situations where two sites are contiguous (like the ones we visited), it generally saves ~2-3% of mobilisation raised.
- It has established ~5-6 camps across these projects and deployed equipment and vehicles among other capital assets. At least 309 employees (excl. common labour) look after the project, its execution and quality, among other matters.
- At the camps we visited, we saw one hot-mix plant (capacity: ~160 tons an hour), two of concrete and wet-mix macadam, with varying capacities. We were also informed that crushers (capacity: ~200t/h each) were deployed further on.

Fig 24 – Densified bitumen macadam (DBM) being poured



Source: Company

Fig 25 – Well-equipped lab to ensure concrete quality



Source: Company

Fig 26 – A flyover in the making



Source: Company

Fig 27 – The freshly laid granular sub-base being compacted



Source: Company

Fig 28 – A roller compacting freshly-laid DBM



Source: Company

Valuation

Accounting for the healthy revenue assurance, manageable debt, sound potential and strong fundamentals at play, we initiate coverage with a Buy recommendation, having arrived at a target price of ₹274 using a sum-of-parts valuation.

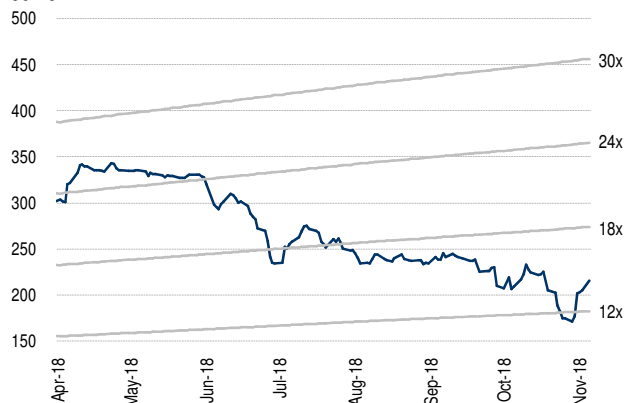
Fig 29 – Sum-of-parts valuation

₹m	FY19e	FY20e
Earnings	1,089	1,414
Assigned PE multiple		12
Value of the construction business (A)		16,968
Investments in asset-ownership (B)		911
Total (A+B)		17,879
No. of shares		65.2
Value per share (₹)		274

Source: Anand Rathi Research

We value the construction business at ₹260 (a share) and the asset ownership at ₹14.

Fig 30 – PE band



Source: Bloomberg, Anand Rathi Research

The stock, at the ruling price, is available at 10x FY20e EPS.

Risks

- Any significantly slower-than-expected execution.
- Working-capital deterioration.

Fig 31 – Peer-to-peer comparison

Companies	M Cap (₹ bn)	CMP (₹)	Order backlog # (₹ bn)	Book-to-bill (x)	PE*		PBV		EV / EBITDA*		RoE (%)		RoCE (%)	
					FY19e	FY20e	FY19e	FY20e	FY19e	FY20e	FY19e	FY20e	FY19e	FY20e
Dilip Buildcon	56	410	241	2.9	5.9	5.7	1.7	1.3	4.6	4.0	29.3	23.4	24.5	24.5
Sadbhav Engineering	38	220	154	4.2	7.0	5.6	2.2	1.8	6.5	5.1	13.1	14.4	13.7	16.2
PNC Infratech	37	142	151	7.0	12.3	12.0	1.8	1.6	8.1	7.1	12.2	11.2	15.4	14.9
Ashoka Buildcon	34	123	108	4.8	12.0	9.5	1.7	1.5	7.4	5.7	10.4	12.0	16.2	18.7
Gayatri Projects	33	178	176	5.7	11.3	10.2	2.4	2.0	7.7	6.7	19.9	18.4	17.0	17.6
KNR Constructions	27	194	60	3.0	12.1	9.2	2.1	1.7	6.7	5.4	14.5	16.5	18.7	22.6
HG Infra	14	219	53	3.5	12.4	9.6	2.2	1.8	5.5	4.5	18.4	19.8	23.4	26.8

Source: Company, Anand Rathi Research # incl L1 orders and post-Q1 orders * excl. investments

Company & Management background

About the company

Primarily into infrastructure projects (highways, roads, bridges), over the years H.G. Infra Engineering has evolved into one of the leading road-infrastructure-development companies in India. It also executes civil construction projects such as railways, land development and extending and grading runways. However, these streams are currently immaterial to overall revenue. Also, in the last few years, it has diversified into water pipeline projects, further strengthening its position as a top operator in creating robust national infrastructure.

Fig 32 – Top projects being executed

Project	Scope of Works	Appointed Date	Value (₹ bn)
Gulabpura-Chittorgarh, Section-2	Six-laning	Nov-17	7.1
Chittorgarh-Udaipur Section of NH-76 Section-1	Six-laning	Jul-17	4.8
Nagpur-Katol-Warud state highway	Rehabilitation & upgrading from two lanes with paved shoulders	Jun-17	3.1
Nandurbar- Prakasha- Sahada-Khetia state highway	Rehabilitation & upgrading to two lanes with paved shoulders / four lanes	Jun-17	3.0
Amarvati-Nandgaon-Morshi-Warud-Pandhurna	Rehabilitation & upgrading from two lanes with paved shoulders	Jun-17	2.9

Source: Company

About the promoters

The company was initially conceived (in the 1980s) as a proprietary set-up by Hodal Singh. Over time, the second generation entered the business, expanding it and finally incorporating it in 2003. It listed on the bourses (the NSE and the BSE) in H2 FY18 and has since posted stellar results.

In its present state, it is spearheaded by Harendra Singh (the youngest son), with almost 24 years' experience. He nurtures the company, looking after financial planning among other aspects.

Besides Harendra, his two elder brothers Girish Pal Singh (the eldest) and Vijendra (the next), too, contribute to the daily functioning in different capacities. Also, Girish Pal Singh's two sons have joined the business and are undergoing apprenticeship.

Key managerial personnel

Fig 33 – Key managerial personnel

Name	Designation	Qualifications & Experience
Harendra Singh	Chairman & Managing Director	24 years' experience in construction; B.E. (civil) Jodhpur Univ. Awarded twice by The Indian Achievers Forum for outstanding achievement in business and social service
Raja Dutta	COO	Previously associated with L&T in various roles spanning planning & execution, among others, over his 21-year tenure
Rajeev Mishra	CFO	Over 10 years' experience in banking and real estate; MBA and Dip. in HR Development from The National Institute of Industrial Research and Development
Vijendra Singh	Whole-time Director	24 years' experience in construction; responsible for overall functioning
Dinesh Kumar Goyal	Executive Director	Retired IAS officer. Various top positions in finance, energy, PWD and roads, transport and highway ministries over his tenure of more than 40 years

Source: Company

The company has recently made notable hires at its senior levels including:

- **Raja Dutta.** Joined as COO. Previously associated with L&T for 21 years across various departments.
- **George Mathews.** Joined as Senior Vice-President. Previously General Manager, NHAI.
- The company had also made recent hires across its various departments. These hires have helped improve its efficiency and already resulted in savings of ~₹70m-100m. The company expects the greater efficiency to contribute a further ~50-60bps to the margins.

Change in share capital structure

The company was incorporated on 21st Jan'03 as a private limited entity under The Companies Act, 1956. Over the years, it issued several equity rounds before finally opting for an Initial Public Offering (on 9th Mar'18) to raise ~₹3bn, at a premium of ~₹260 a share.

Fig 34 – Change in capital structure since inception

Date	Change in no. of shares	Post-change, no. of shares subscribed	Issue Price	Premium	Remarks
21-Jan-03	1,738,750	1,738,750	10	-	Allotment of equity shares to others
04-Mar-05	11,250	1,750,000	10	-	Allotment of equity shares to others
31-Mar-10	1,000,000	2,750,000	10	-	Allotment of equity shares to others
18-Jan-11	2,250,000	500,000	10	-	Allotment of equity shares to others
25-Mar-11	2,500,000	7,500,000	10	-	Allotment of equity shares to others
30-Sep-11	2,500,000	10,000,000	10	-	Allotment of equity shares to others
31-Mar-12	2,250,000	12,250,000	10	-	Allotment of equity shares to others
31-Mar-13	3,000,000	15,250,000	10	-	Allotment of equity shares to others
29-Feb-16	2,000,000	17,250,000	10	-	Rights issue
31-Mar-16	770,000	18,020,000	10	-	Rights issue
11-Sep-17	36,040,000	54,060,000	10	-	Bonus issue
09-Mar-18	11,111,111	65,171,111	10	260	Public Issues/ IPO

Source: Company

About this time (8th Mar'18), the promoters also came out with an offer for sale, the proceeds of which were extended by the promoter group to the company as interest-free loans.

Fig 35 – Changes in shareholding

% holdings		Q4 FY18	Q1 FY19	Q2 FY19
Promoters	(A)	73.74	73.74	73.74
FIs	(B)	0.02	0.43	1.27
United Services Automobiles Ass.		0.02	0.43	1.21
Other		-	-	0.06
DII's	(C)	17.20	16.57	16.07
L&T Mutual Fund		5.65	5.85	5.98
Reliance Capital Trustee		3.44	3.44	3.77
IDFC Mutual Fund		-	-	1.03
Aditya Birla SunLife Insurance		-	1.48	1.58
Others		8.11	5.80	3.71
Public	(D)	9.04	9.26	8.92
Total	(A+B+C+D)	100.00	100.00	100.00

Source: BSE website

Appendix

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