

H.G. Infra Engineering

BUY

Well positioned

HG Infra reported Rev/EBIDTA/APAT beat of 1/3/8.5% vs our estimates. Higher EBIDTA margins (+35bps vs estimate), stable interest cost/depreciation resulted in APAT beat. We maintain BUY on HG with SOTP of Rs 441/Sh, valuing the EPC business at 12x FY21E EPS.

COMPANY UPDATE

- **Inline Rev/EBIDTA, APAT beats estimates:** HG infra reported Rs 4.7bn of revenue during 2QFY20. EBIDTA margins expanded 94bps YoY to 15.5%. EBIDTA beat stood at 3%. Flat YoY Depreciation, YoY dip in Interest cost and lower tax rate (new ETR) resulted in APAT beat.
- **About 51% of order backlog yet to commence execution:** HG has Rs 62bn of order backlog of which Rs 32bn is yet to move into execution (2 HAM projects and 2 EPC packages). All these projects are expected to receive 'Appointed Dates' in 3QFY20 with land acquisition in advance stages. This coupled with ramp-up in execution of Hapur Moradabad project may help HG achieve a 25-30% revenue growth in FY20. Pending HAM equity requirement is ~Rs 2.5bn spread across FY20-21E.
- **De-leveraging target for FY20E on track:** HGs gross debt stands at Rs 3.4bn (including Rs 0.4bn in

promoter loans) vs. Rs 3.5bn QoQ. Of HGs Rs 1.8bn debtors outstanding in the World Bank funded Rajasthan State project as of 1QFY20, the company received Rs 1.2bn during 2QFY20. Ramp-up in execution in Hapur Moradabad project (Rs 3bn expected during FY20E) coupled with mobilization advance (in excess of Rs 1bn) from projects awaiting ADs, HG is working towards its FY20E target gross debt level of Rs 2.5bn (Rs 1bn reduction vs. 1HFY20).

STANCE

HG delivered an inline performance during 2QFY20. About Rs 32bn of orders are expected to move into execution during 3QFY20, leading to a strong pickup in revenue from 4QFY20. The EPC bid pipeline is robust (HG hopes to secure EPC orders of ~Rs20bn and HAM orders of ~Rs10bn during 2HFY20). HG has received FC for its 2 HAM projects from 2 leading banks, highlighting the company's ability to secure funding in a market which values Infra companies with strong execution capabilities as well as strong financial health. We maintain BUY. Key risks (1) Further delay in NHAI ordering activity; (2) Delay in appointed dates for the company's HAM and EPC projects.

Financial Summary (Standalone)

(Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Revenues	4,742	4,291	10.5	5,261	(9.9)	13,927	20,098	25,225	28,900
EBITDA	733	623	17.6	795	(7.8)	2,081	3,033	3,735	4,266
APAT	386	246	56.9	344	12.1	842	1,236	1,930	2,166
Diluted EPS (Rs)	5.9	3.8	56.9	5.3	12.1	12.9	19.0	29.6	33.2
P/E (x)						15.0	10.2	6.6	5.8
EV/EBIDTA (x)						7.2	5.3	4.1	3.5
RoE (%)						23.5	20.6	25.6	22.7

Source: Company, HDFC sec Inst Research

INDUSTRY	INFRASTRUCTURE
CMP (as on 11 Nov 2019)	Rs 194
Target Price	Rs 441

Nifty	11,913
Sensex	40,345

KEY STOCK DATA

Bloomberg	HGINFRA IN
No. of Shares (mn)	65
MCap (Rs bn) / (\$ mn)	13/177
6m avg traded value (Rs mn)	11

STOCK PERFORMANCE (%)

52 Week high / low	Rs 308/173		
	3M	6M	12M
Absolute (%)	(15.9)	(18.6)	(11.5)
Relative (%)	(23.3)	(26.3)	(26.2)

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	73.74	73.9
FIs & Local MFs	16.38	19.41
FPIs	1.74	0.61
Public & Others	8.14	6.08
Pledged Shares	-	-

Source : BSE

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Revenue: Rs 4.7bn (+11/-10% YoY/QoQ, in line)

EBITDA: Rs 0.7bn (+18/-8% YoY/QoQ, 3% beat)

EBITDA margin came in at 15.5% (+94/+35bps YoY/QoQ). EBITDA margins are expected to remain around 15%

As a result APAT: Rs 386mn (+57/+12% YoY/QoQ, 9% beat)

Standalone Quarterly Financials

Particulars (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Net Revenues	4,742	4,291	10.5	5,261	(9.9)	10,003.0	8,792.7	13.8
Material Expenses	(3,645)	(3,330)	9.4	(4,131)	(11.8)	(7,775.3)	(6,835.3)	13.8
Employee Expenses	(264)	(291)	(9.2)	(289)	(8.6)	(553.2)	(573.6)	(3.6)
Other Expenses	(100)	(47)	113.7	(46)	116.2	(146.3)	(89.7)	63.0
EBITDA	733	623	17.6	795	(7.8)	1,528.3	1,294.1	18.1
Depreciation	(181)	(177)	2.4	(176)	3.0	(357.4)	(351.8)	1.6
EBIT	552	446	23.7	619	(10.9)	1,170.9	942.3	24.3
Interest Cost	(108)	(96)	12.0	(123)	(12.4)	(230.2)	(211.3)	9.0
Other Income (inc EO Item)	29	30	(0.2)	31	(3.6)	60.0	60.0	(0.1)
PBT	474	380	24.8	527	(10.1)	1,000.6	791.0	26.5
Tax	(88)	(134)	(34.1)	(183)	(51.7)	(271.1)	(275.3)	(1.5)
RPAT	386	246	56.9	344	12.1	729.5	515.7	41.5
EO Items (Adj For Tax)	-	-	-	-	-	-	-	-
APAT	386	246	56.9	344	12.1	729.5	515.7	41.5

Source: Company, HDFC sec Inst Research

Margin Analysis

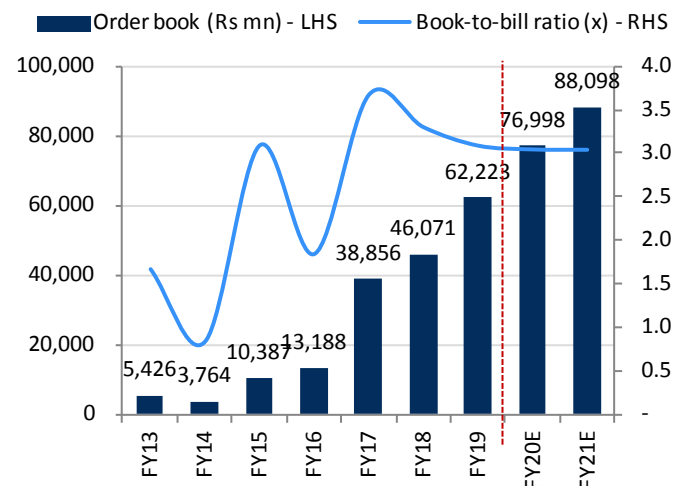
MARGIN ANALYSIS	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Material Expenses % Net Sales	76.9	77.6	(74.5)	78.5	(165.4)	77.7	77.7	(0.9)
Employee Expenses % Net Sales	5.6	6.8	(121.0)	5.5	7.8	5.5	6.5	(99.3)
Other Operating Expenses % Net Sales	2.1	1.1	101.8	0.9	123.0	1.5	1.0	44.2
EBITDA Margin (%)	15.5	14.5	93.7	15.1	34.7	15.3	14.7	56.0
Tax Rate (%)	18.6	35.3	(1,666.5)	34.7	(1,608.0)	27.1	34.8	(771.0)
APAT Margin (%)	8.1	5.7	240.4	6.5	159.1	7.3	5.9	142.8

Source: Company, HDFC sec Inst Research

We have considered 19.9% revenue CAGR over FY19-21E

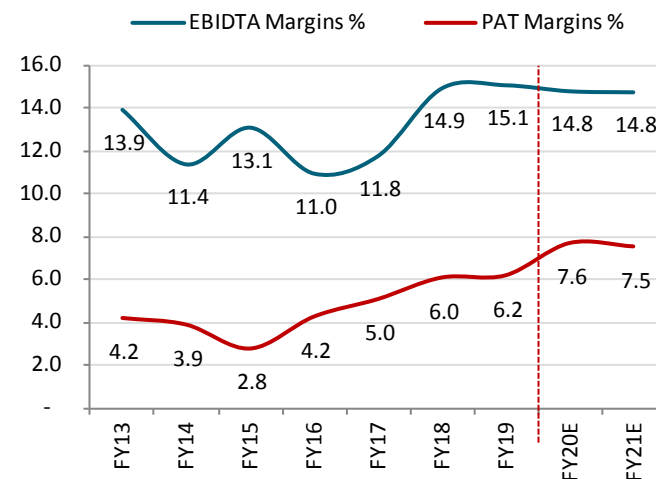
During 2HFY20, the company hopes to secure EPC orders from NHAI (~Rs 20bn) in addition to bidding for new mid-sized HAM projects (~Rs 10bn).

Order Book Trend – 1.4x over FY19-21E



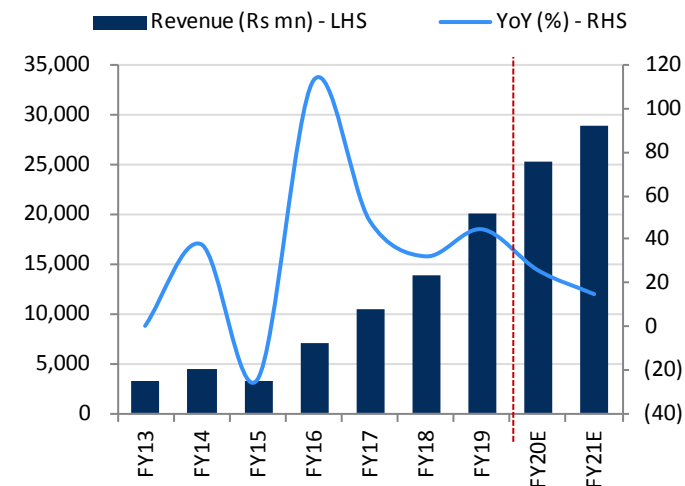
Source : Company, HDFC sec Inst Research

Margin Structure – Should Stabilize ~14.5-15%



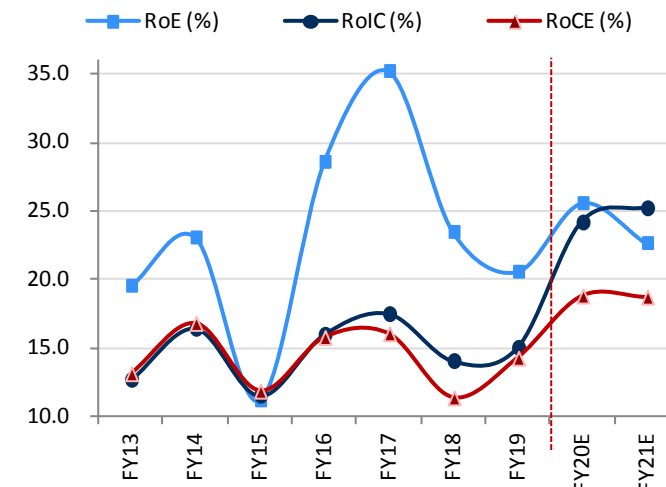
Source : Company, HDFC sec Inst Research

Revenue Trend – FY19-21E 19.9% CAGR



Source : Company, HDFC sec Inst Research

Return Ratios – High RoEs over FY20-21E



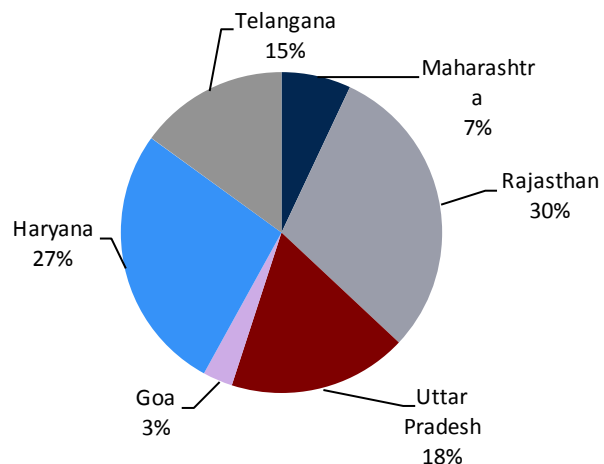
Source : Company, HDFC sec Inst Research

Order book largely concentrated in Western and Northern India though the company has been successful in significant diversification beyond Rajasthan (home state) and has secured its first EPC order in the South (Telangana)

Private clients include works from IRB and Tata Projects and Adani Transport

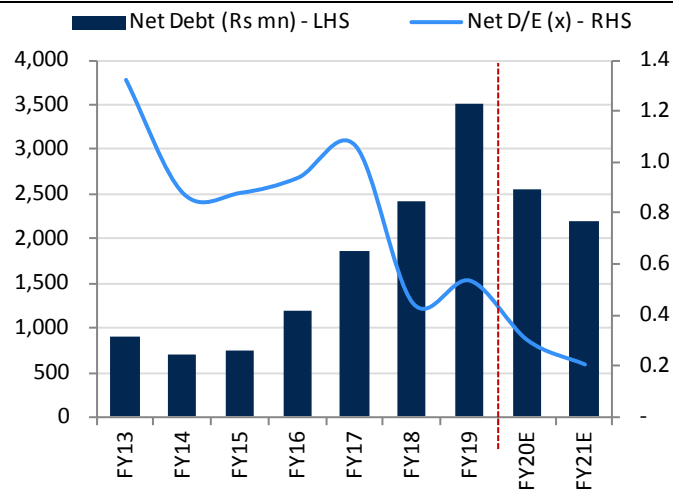
The company expects the debt to reduce to Rs 2.5-2.75bn by FY20E on account of receipt of pending dues from Rajasthan project (Rs 1.23bn received out of Rs 1.8bn), mobilization advance for the 2 HAM projects (AD expected to be received in 3QFY20) and significant construction revenue to be booked through the Hapur Moradabad project (Rs 3bn in FY20). We have built in ~Rs 3.1bn of FY20-end debt to factor in delays in receipt of mobilization advance/ payments beyond estimated timelines

2QFY20 Order Book – Geography Wise (West and North Concentration)



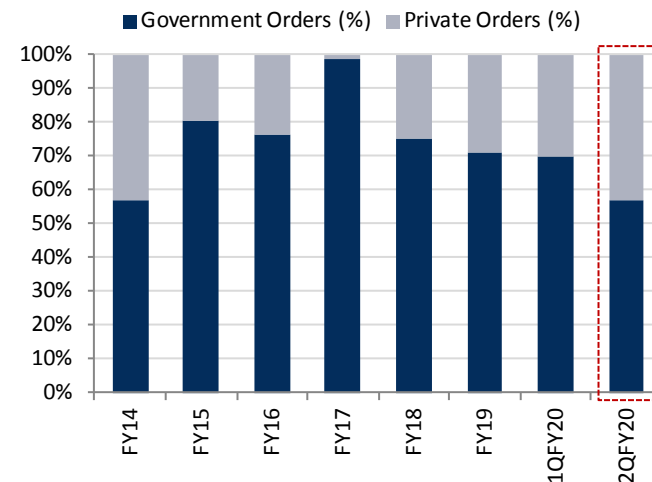
Source : Company, HDFC sec Inst Research

Leverage expected to reduce further



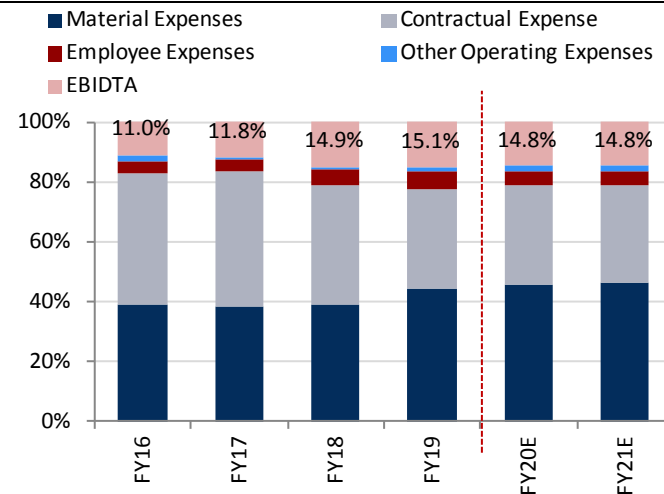
Source : Company, HDFC sec Inst Research

Order Book – Clients (% Breakup)



Source : Company, HDFC sec Inst Research

Margin Breakup – Improving trend



Source : Company, HDFC sec Inst Research

Order book to grow at a CAGR of 19% over FY19-21E

EBITDA margins will be stable between 14.5-15% range

The company has adopted the new corporate tax structure and hence the effective tax rate for the company during FY20-21E is expected to be around 25.17%

APAT will grow by 32.4% CAGR over FY19-21E

Key Assumptions And Estimates (Standalone)

Key Assumptions	FY20E	FY21E	Comments
Closing order book	76,998	88,098	Order book to grow at a CAGR of 19% over FY19-21E
Order book growth (%)	23.7	14.4	
New order booking	40,000	40,000	
Book to bill ratio	3.1	3.0	
Total Revenue	25,225	28,900	Revenue to grow at a CAGR of 19.9% over FY19-21E
Growth (%)	25.5	14.6	
EBITDA	3,735	4,266	EBITDA to grow at a CAGR of 18.6% over FY19-21E
EBITDA margin (%)	14.8	14.8	EBITDA margins will be stable between 14.5-15% range
Depreciation	788	903	
Financial Charges	488	606	To be impacted by interest-bearing mobilization advance from NHAI for 2 HAM projects (expected to be received in 2HFY20)
PBT	2,590	2,894	23.3% FY19-21E CAGR
PBT margin (%)	10.3	10.0	
Tax	660.5	728.4	
Tax rate (%)	25.5	25.2	The company has adopted the new corporate tax structure
RPAT	1,930	2,166	
Net margin (%)	7.6	7.5	
Extraordinary	-	-	
Adjusted PAT	1,930	2,166	APAT will grow by 32.4% CAGR over FY19-21E
Gross Block Turnover	3.6	4.1	
Debtor days	74	74	
CFO - a	3,779	2,631	
CFI - b	(2,285)	(1,621)	
FCF - a+b	1,495	1,010	
CFF - c	(1,210)	(1,065)	
Total change in cash - a+b+c	285	(55)	

Source: HDFC sec Inst Research

We have valued the core construction business at 12x one-year forward Mar-21E EPS at Rs 399/share and HAM equity invested at 1x P/BV – Rs 42/sh

We arrive at SOTP based TP of Rs 441/sh

We have revised our FY20-21E APAT estimates by 15.2%/12.4%. These changes in the estimates factors in a stable EBITDA margin expected over FY20-21E and the adoption of the new corporate tax structure by the company resulting in an effective tax rate of 25.17%

Outlook And Valuation

Maintain BUY with reduced SOTP of Rs 441/share (vs Rs 462/share earlier)

Valuation methodology

- We value the core construction business at 12x one-year forward Mar-21E EPS (vs 15x earlier) at Rs 399/share. This 3 notch reduction in multiple factors in (1) 2 EPC and 2 HAM projects (constituting ~51% of the outstanding order book) awaiting Appointed Dates and hence are yet to move into execution phase (2) Equity commitment (with a possibility of higher upfront equity requirement depending upon the terms of sanction) towards new HAM projects as the company hopes to secure new projects during the next round of NHAI tendering during 2HFY20.
- However, (1) EBITDA margins in the range of 14.5-15% with the company adopting selective bidding approach for margin protection (2) Stable interest costs and a healthy balance sheet with net D/E likely to reduce to 0.3x by FY20E, (3) Receipt of pending dues from Rajasthan projects and AD for the balance HAM projects within the stipulated timelines may provide re-rating triggers.
- Given its strong credit history, execution track record, a robust balance sheet, strong revenue visibility, we expect HG to continue to demonstrate exceptional execution and earnings growth trajectory.

Valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
Standalone	Core construction business	25,988	399	At 12x Mar-21E EPS
	HAM Investments	2,740	42	At 1x BV of invested equity in FY21E
Total		28,728	441	

Source: HDFC sec Inst Research

Change in Estimates

Rs mn	FY20E Old	FY20E NEW	% Change	FY21E Old	FY21E NEW	% Change
Revenues	26,599	25,225	(5.2)	30,457	28,900	(5.1)
EBIDTA	3,888	3,735	(3.9)	4,434	4,266	(3.8)
EBIDTA Margins (%)	14.6	14.8	19.0	14.6	14.8	20.2
APAT	1,675	1,930	15.2	1,927	2,166	12.4

Source: HDFC sec Inst Research

We summarize the valuations of the core EPC operations of our coverage universe and excluding the value of the asset portfolio, land and any other investment

Peer Group Valuation Summary (Core EPC Operations)

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Dilip Buildcon	57.3	419	BUY	720	55.6	50.0	50.5	5.5	6.1	6.0	4.7	4.2	4.0	26.9	19.3	16.4
PNC Infratech	45.3	177	BUY	339	9.1	13.6	15.8	13.5	9.0	7.7	7.4	5.4	4.5	11.9	15.3	15.4
NCC	34.7	58	BUY	127	10.4	5.9	7.9	4.8	8.5	6.3	3.3	4.5	3.5	13.8	7.2	8.9
KNR Constructions	33.1	236	BUY	375	12.3	14.1	17.5	14.3	12.5	10.1	6.4	6.3	4.9	13.5	13.0	13.7
Ashoka Buildcon	26.7	95	BUY	220	11.5	10.5	12.4	2.0	2.2	1.9	2.7	2.5	2.2	15.5	12.6	13.2
Sadbhav Engineering	21.2	123	BUY	269	10.9	10.3	14.2	6.0	6.4	4.6	6.2	4.2	3.9	9.2	8.1	10.1
Ahluwalia Contracts	19.8	296	BUY	402	17.5	20.2	24.3	16.2	14.0	11.6	8.1	6.4	5.0	17.3	16.9	17.2
PSP Projects	19.4	539	NEU	590	25.1	33.1	39.4	21.5	16.3	13.7	11.7	10.1	8.2	26.8	28.3	26.9
JMC Projects	19.0	113	BUY	175	8.5	9.7	10.9	10.4	9.0	8.1	6.4	5.1	4.4	16.6	16.4	15.8
Capacite Infraprojects	14.8	218	BUY	360	14.1	15.8	27.2	12.9	12.9	7.5	5.9	4.9	3.6	12.0	12.0	17.8
HG Infra	12.6	194	BUY	441	19.0	29.6	33.2	8.0	5.1	4.6	4.4	3.3	2.8	20.6	25.6	22.7
JKIL	10.5	154	BUY	258	23.4	27.5	32.3	6.6	5.6	4.8	3.8	3.2	2.8	11.1	11.9	12.7
ITD Cementation	9.6	56	BUY	78	4.8	5.9	6.5	11.7	9.6	8.6	4.4	4.0	3.6	8.0	9.4	9.5
Average								10.3	9.0	7.3	5.8	4.9	4.1	15.6	15.1	15.4

Source: HDFC sec Inst Research, *FY19E should be read as 15MFY19

Income Statement(Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues (post JV partner share)	10,560	13,927	20,098	25,225	28,900
Growth (%)	48.2	31.9	44.3	25.5	14.6
Material Expenses	8,804	10,937	15,585	19,840	22,841
Employee Expenses	408	761	1,191	1,215	1,336
Other Operating Expenses	105	148	290	435	457
EBIDTA	1,243	2,081	3,033	3,735	4,266
EBIDTA (%)	11.8	14.9	15.1	14.8	14.8
EBIDTA Growth (%)	59.3	67.3	45.8	23.2	14.2
Depreciation	256	539	755	788	903
EBIT	987	1,541	2,278	2,947	3,363
Other Income (Incl. EO Items)	34	47	115	131	137
Interest	189	401	490	488	606
PBT	833	1,187	1,903	2,590	2,894
Tax	300	345	667	660	728
RPAT	533	842	1,236	1,930	2,166
EO items (net of tax)	-	-	-	-	-
APAT	533	842	1,236	1,930	2,166
APAT Growth (%)	76.6	58.0	46.7	56.1	12.2
EPS	8.2	12.9	19.0	29.6	33.2
EPS Growth (%)	76.6	58.0	46.7	56.1	12.2

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	180	652	652	652	652
Reserves	1,581	4,757	5,941	7,831	9,958
Total Shareholders Funds	1,761	5,408	6,592	8,483	10,609
Minority Interest					
Long Term Debt	635	1,247	593	789	709
Short Term Debt	1,406	2,823	3,223	2,345	2,005
Total Debt	2,041	4,070	3,817	3,134	2,714
Deferred Taxes	(23)	(61)	(84)	(78)	(78)
Other Non Current Liabilities	295	489	574	662	752
TOTAL SOURCES OF FUNDS	4,075	9,905	10,900	12,201	13,997
APPLICATION OF FUNDS					
Net Block	2,044	4,119	4,619	4,566	4,562
CWIP	7	86	-	-	-
Investments	-	-	200	1,880	2,740
Other Non Current Assets	257	392	239	685	780
Total Non-current Assets	2,308	4,597	5,057	7,132	8,082
Inventories	484	1,068	1,161	1,371	1,560
Debtors	1,128	2,802	4,752	5,139	5,851
Cash & Equivalents	170	1,656	297	582	527
ST Loans & Advances, Others	317	502	567	274	312
Other Assets	1,293	4,158	3,768	4,520	5,414
Total Current Assets	3,392	10,186	10,545	11,886	13,664
Creditors	869	2,793	3,461	5,482	6,241
Other Current Liabilities & Provns	755	2,084	1,242	1,334	1,507
Total Current Liabilities	1,625	4,878	4,702	6,816	7,748
Net Current Assets	1,767	5,308	5,842	5,070	5,916
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	4,075	9,905	10,900	12,201	13,997

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	833	1,187	1,903	2,590	2,894
Non-operating & EO items	2	(30)	(7)	(131)	(137)
Interest expenses	189	401	490	488	606
Depreciation	256	539	755	788	903
Working Capital Change	(388)	(1,763)	(1,702)	705	(906)
Tax paid	(245)	(412)	(578)	(660)	(728)
OPERATING CASH FLOW (a)	647	(78)	861	3,779	2,631
Capex	(1,086)	(2,523)	(1,282)	(736)	(898)
Free cash flow (FCF)	(439)	(2,601)	(421)	3,043	1,733
Investments	(76)	(385)	(248)	(1,680)	(860)
Non operating income	24	38	92	131	137
INVESTING CASH FLOW (b)	(1,137)	(2,870)	(1,438)	(2,285)	(1,621)
Share capital Issuance	-	2,806	-	-	-
Debt Issuance	809	2,021	(254)	(683)	(420)
Interest expenses	(189)	(394)	(488)	(488)	(606)
Dividend	-	-	(39)	(39)	(39)
FINANCING CASH FLOW (c)	620	4,434	(782)	(1,210)	(1,065)
NET CASH FLOW (a+b+c)	130	1,486	(1,359)	285	(55)
Closing Cash & Equivalents	171	1,656	297	582	527

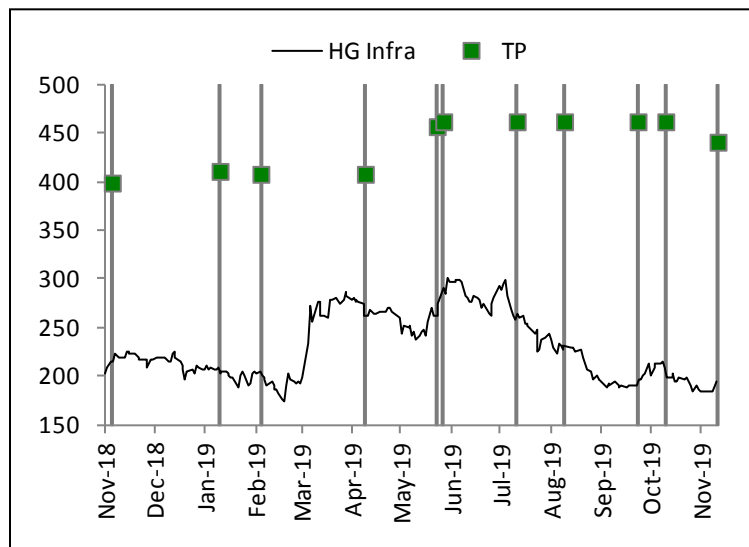
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

Year ending March	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
GPM	16.6	21.5	22.5	21.3	21.0
EBITDA Margin	11.8	14.9	15.1	14.8	14.8
EBIT Margin	9.3	11.1	11.3	11.7	11.6
APAT Margin	5.0	6.0	6.2	7.6	7.5
RoE	35.2	23.5	20.6	25.6	22.7
Core RoCE	17.5	14.1	15.1	24.2	25.2
RoCE	16.0	11.4	14.3	18.8	18.7
EFFICIENCY					
Tax Rate (%)	36.0	29.1	35.0	25.5	25.2
Asset Turnover (x)	4.6	2.8	3.3	3.6	4.1
Inventory (days)	17	28	21	20	20
Debtors (days)	39	73	86	74	74
Payables (days)	30	73	63	79	79
Other Current Assets (days)	56	122	79	69	72
Other Current Liab (days)	26	55	23	19	19
Net Working Capital Cycle (Days)	55	96	101	65	68
Debt/EBITDA (x)	1.6	2.0	1.3	0.8	0.6
Net D/E	1.1	0.4	0.5	0.3	0.2
Interest Coverage	5.2	3.8	4.6	6.0	5.6
PER SHARE DATA					
EPS (Rs/sh)	8.2	12.9	19.0	29.6	33.2
CEPS (Rs/sh)	12.1	21.2	30.5	41.7	47.1
DPS (Rs/sh)	0.0	0.0	0.0	0.0	0.0
BV (Rs/sh)	27	83	101	130	163
VALUATION					
P/E	23.7	15.0	10.2	6.6	5.8
P/BV	7.2	2.3	1.9	1.5	1.2
EV/EBITDA	11.7	7.2	5.3	4.1	3.5
OCF/EV (%)	0.0	(0.0)	0.1	0.2	0.2
FCF/EV (%)	(3.0)	(17.3)	(2.6)	20.0	11.7
FCFE/Market Cap (%)	1.4	(7.7)	(9.2)	14.8	5.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
5-Nov-18	215	BUY	399
10-Jan-19	204	BUY	411
4-Feb-19	206	BUY	408
9-Apr-19	263	BUY	408
23-May-19	263	BUY	457
27-May-19	290	BUY	462
11-Jul-19	264	BUY	462
13-Aug-19	230	BUY	462
22-Sep-19	188	BUY	462
10-Oct-19	208	BUY	462
11-Nov-19	194	BUY	441

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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