

HG Infra Engineering Ltd

BUY

CMP Rs201

Target Rs270

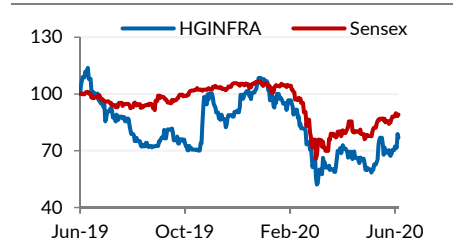
Upside 34%

| HIGHLIGHTS | Our View | Valuation | Risk to our call |
|--|--|--|---|
| <ul style="list-style-type: none"> ✓ HG Infra reported 7.4% yoy topline growth during Q4 FY20 despite 10 days of work impacted owing to COVID related lockdown. Its operating margin remained robust at 16.3% (up 20bps yoy). Also, muted depreciation and interest cost coupled with lower tax outgo led to a 39.4% jump in net profit. ✓ At the end of Mar'20, HG Infra's order book stood at ~Rs.71bn (3.2x FY20 revenues). Share of EPC projects stood at 76% with balance from HAM segment. ✓ The company has faced significant execution issues related to labor and supply chain during the initial phase of lockdown. However, the situation has now improved with ~50% labor availability and expects it to normalize by end of Monsoon period. ✓ In the Rewari Package 4 HAM project, ~60% land is currently available and it is likely to improve to 90% by Sept' 20. The company has already applied for financial closure and expects appointed date by Oct' 20. ✓ As per the Company, ~Rs.700bn of orders were in pipeline from NHAI during Mar'20 which could not be bid out due to COVID related lockdown, The Company expects a large part of these orders to be bid out in next 2-3 quarters. | <ul style="list-style-type: none"> ✓ We expect, labour shortage to impact execution during H1 FY21. However, the timely receipt of appointed date in Rewari project would support execution in H2 FY21. On overall basis, we expect revenue during FY21 to remain subdued. ✓ Operating margin is likely to come under pressure during H1 FY21 due to sluggish execution while fixed costs continue. ✓ While order book remains strong, new project wins is crucial to maintain growth momentum beyond FY22. | <ul style="list-style-type: none"> ✓ With the COVID impact on topline and margins, we cut our estimates for FY21 and FY22. However, we believe, the Company is well placed to speed up execution as COVID related impact settles. ✓ Decent balance sheet position provide comfort. We maintain our BUY rating on the stock for revised target of Rs.270 (Based on SOTP valuation). | <ul style="list-style-type: none"> ✓ Delay in appointed date in pending HAM project. ✓ Slower than expected ramp up in execution. |

Stock data (as on June 26, 2020)

| | |
|------------------------|--------------|
| Sensex: | 35,171 |
| 52 Week h/l (Rs) | 303 / 126 |
| Market cap (Rs/USD mn) | 13,125 / 174 |
| Outstanding Shares | 65 |
| 6m Avg t/o (Rs mn): | 9 |
| Div yield (%): | 0.2 |
| Bloomberg code: | HGINFRA IN |
| NSE code: | HGINFRA |

Stock performance



| | 1M | 3M | 1Y |
|-----------------|-------|-------|--------|
| Absolute return | 31.3% | 33.5% | -26.2% |

Shareholding pattern (As of Mar'20 end)

| | |
|----------|-------|
| Promoter | 74.0% |
| FII+DII | 21.4% |
| Others | 4.6% |

Δ in earnings estimates

| | FY20 | FY21e | FY22e |
|-----------|-------|--------|--------|
| EPS (New) | 25.4 | 20.2 | 27.2 |
| EPS (Old) | 27.4 | 38.4 | 45.9 |
| % change | -7.2% | -47.5% | -40.7% |

Exhibit 1: Result table (Standalone)

| Y/e 31 Mar (Rs m) | Q4 FY20 | Q4 FY19 | yoy(%) | Q3 FY20 | qoq (%) |
|-------------------|---------|---------|--------|---------|---------|
| Revenue | 6,229 | 5,800 | 7.4 | 5,730 | 8.7 |
| Operating Profit | 1,014 | 932 | 8.8 | 882 | 15.0 |
| OPM (%) | 16.3 | 16.1 | 20 bps | 15.4 | 89 bps |
| Other Income | 38 | 23 | 63.9 | 39 | (2.2) |
| Depreciation | (208) | (203) | 2.7 | (191) | 9.2 |
| Interest | (159) | (164) | (3.4) | (135) | 17.8 |
| PBT | 685 | 589 | 16.4 | 595 | 15.1 |
| Tax | (172) | (221) | (21.9) | (180) | (4.0) |
| Reported PAT | 513 | 368 | 39.4 | 415 | 23.5 |

Source: Company, YES Sec - Research

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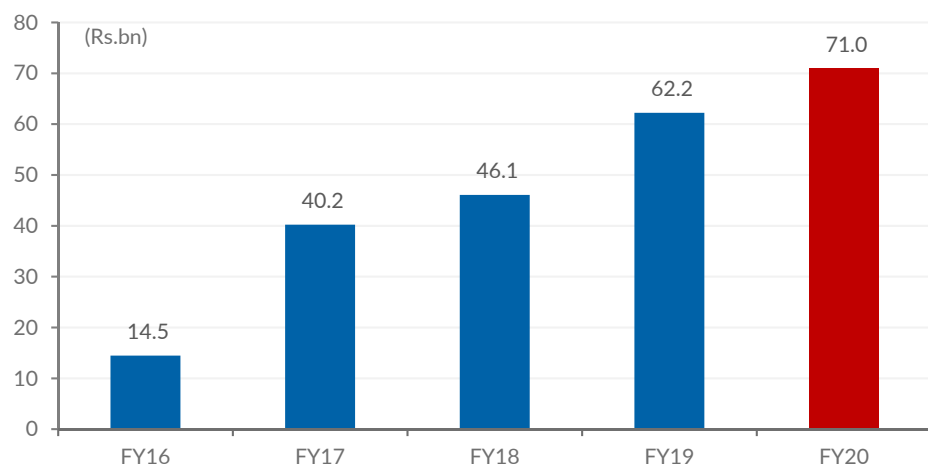
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CONCALL HIGHLIGHTS

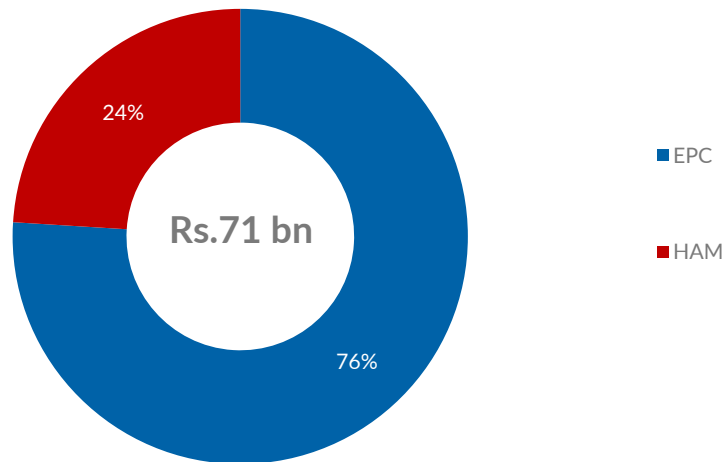
- ✓ HG Infra reported 7.4% yoy topline growth during Q4 FY20 despite the COVID related impact of 10 days on execution. The labor availability at most of its sites stands at ~50% of the requirement. The situation on labor availability is expected to stabilize post monsoon.
- ✓ The current order book stands at Rs.71 bn including recently won HAM projects. The Rewari Package 4 HAM project is awaiting financial closure and appointed date on the same is expected post Monsoon.
- ✓ During Q4 FY20, HG Infra has won projects worth Rs. 21 bn. There has been change in scope of certain projects along with cancellation of Goa project. ~Rs.6bn of order book has been reduced owing to modifications/cancellations of projects during the quarter. The adjusted order book stands at Rs.71 bn at end of Mar'20.
- ✓ Projects ordering from NHAI side is likely to pick up in FY21 after the postponement of bidding activity (projects which were to be awarded in Mar'20). HG Infra is targeting decent order inflows during FY21.
- ✓ With sharp drop in Bank rate, NHAI may award more of EPC projects as bidders may not be willing to bid significantly for HAM project. Some bids may be awarded via BOT (toll) routes as well.
- ✓ The Company would focus on bidding for more of EPC projects going forward. The Company has already bid for some certain Rail projects for RVNL. The bids are yet to be opened and HG is looking to selectively diversify in other segments.
- ✓ During FY21 and FY22, equity requirement towards HAM project would be ~Rs.1.9bn and Rs.660 mn respectively.
- ✓ As of end of Q4 FY20, the retention money with clients stood at Rs.1.85 mn. Gross debt at the end of FY21 is expected to remain at current levels of ~Rs.3 bn.

Exhibit 2: Robust order book provides near-term revenue visibility



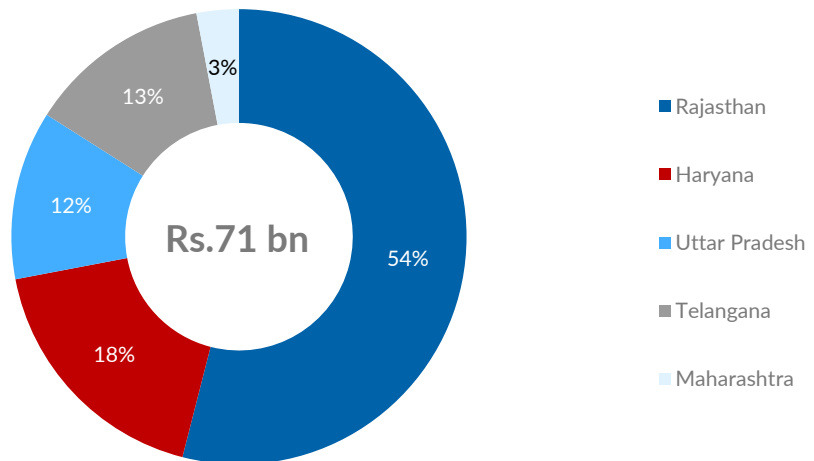
Source: Company, YES Sec - Research

Exhibit 3: EPC projects contribute 76% to the overall order book



Source: Company, YES Sec – Research

Exhibit 4: Regionally diversified order book



Source: Company, YES Sec – Research

Exhibit 5: Financial Summary (Standalone)

| Y/e 31 Mar (Rs m) | FY19 | FY20 | FY21E | FY22E |
|-------------------|--------|--------|--------|--------|
| Revenues | 20,098 | 21,961 | 20,863 | 25,453 |
| yoy growth (%) | 44.3 | 9.3 | (5.0) | 22.0 |
| Operating profit | 3,032 | 3,424 | 2,968 | 3,692 |
| OPM (%) | 15.1 | 15.6 | 14.2 | 14.5 |
| Reported PAT | 1,236 | 1,657 | 1,315 | 1,773 |
| yoy growth (%) | 46.6 | 34.1 | (20.7) | 34.8 |
| EPS (Rs) | 19.0 | 25.4 | 20.2 | 27.2 |
| P/E (x) | 10.6 | 7.9 | 10.0 | 7.4 |
| EV/EBITDA (x) | 4.8 | 4.2 | 4.9 | 3.9 |
| Debt/Equity (x) | 0.4 | 0.3 | 0.3 | 0.3 |
| RoE (%) | 20.6 | 22.4 | 14.9 | 17.2 |

Source: Company, YES Sec – Research

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