August 18, 2020

Result Report Q1 FY21 | Sector: Infrastructure

YES SECURITIES
INSTITUTIONAL EQUITIES

HG Infra Engineering Ltd

BUY	CMP Rs192	Target Rs282	Upside 47.0%

HIGHLIGHTS

- HG Infra Engineering reported topline de-growth of 43.4% yoy (~Rs.3.0bn) which was impacted due to COVID-19 related shutdown. Operating margin, however, remained at an elevated level of 16.5% (+138 bps yoy) led by higher contribution from better margin HAM projects. PAT stood at Rs.151mn (-56.1% yoy).
- At the end of Jun'20, HG Infra's order book stood healthy at ~Rs.68bn (3.5x TTM revenues). The company has not won any major projects during YTD FY21. However, the management seems confident of securing orders worth ~Rs.35bn during FY21.
- The company is currently running at ~70-80% efficiency levels. Also, labour strength across project sites have improved to 80%+ of the pre-Covid levels. With this, the management expects operations to get normalized by Sept'20-end.
- The company expects receipts of appointed dates in pending projects such as Rewari Package 4, Mancherial to Repallewada (Adani project) by Oct'20, and its entire order book is likely to come under execution during H2 FY21.
- Till 30th Jun'20, the company has infused ~Rs.1.5bn towards equity investment in HAM projects (equity infusion: Rs.550mn in Q1 FY21). Equity requirement towards existing projects during FY21 is estimated to be ~Rs.1.8bn and ~700mn in FY22E.

Our View

- Faster than expected re-mobilization of labor is likely to aid company in ramping-up operations. Also, timely receipt of appointed date in pending HAM projects would support execution in H2 FY21. On overall basis, we expect marginal (~5%) decline in revenues during FY21 followed by strong 22% yoy growth during FY22E.
- Operating margin has remained at the elevated levels for the company and expects to remain at ~15% going forward.
- While order book remains strong, new project wins is crucial to maintain growth momentum beyond FY22. Also, debtors from certain private sector clients is crucial for improving working capital.

Valuation

- We have largely retained our revenue estimates for FY21 and FY22, and the company is well placed to speed up execution as COVID related impact settles. We have however increased our operating margin estimates to 15% (in FY22).
- Decent balance sheet position provide comfort. We maintain our BUY rating for revised target of Rs.282 (Based on SOTP valuation).

Risk to our call

- Delay in appointed date in pending HAM projects.

Exhibit 1: Result table (Standalone)

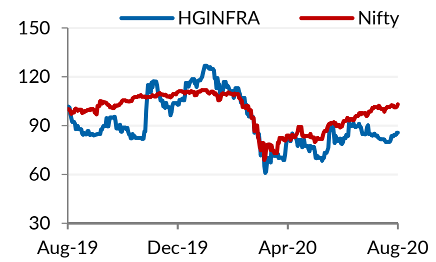
Y/e 31 Mar (Rs m)	Q1 FY21	Q1 FY20	yoy(%)	Q4 FY20	qoq (%)
Revenue	2,979	5,261	(43.4)	6,229	(52.2)
Operating Profit	491	795	(38.2)	1,014	(51.5)
OPM(%)	16.5	15.1	138 bps	16.3	21 bps
Other Income	27	31	(13.2)	38	(30.0)
Depreciation	(195)	(176)	10.6	(208)	(6.5)
Interest	(122)	(123)	(0.8)	(159)	(23.2)
PBT	201	527	(61.8)	685	(70.6)
Tax	(50)	(183)	(72.4)	(172)	(70.7)
Reported PAT	151	344	(56.1)	513	(70.6)

Source: Company, YES Sec – Research

Stock data (as on Aug 18, 2020)

Nifty	11,385
52 Week h/l (Rs)	295 / 126
Market cap (Rs/USD mn)	12523 / 168
Outstanding Shares (mn)	65
6m Avg t/o (Rs mn):	6
Div yield (%):	#N/A N/A
Bloomberg code:	HGINFRA IN
NSE code:	HGINFRA

Stock performance



	1M	3M	1Y
Absolute return	1.1%	15.9%	-14.3%

Shareholding pattern (As of Jun'20 end)

Promoter	74.0%
FII+DII	21.3%
Others	4.7%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	25.4	21.3	28.5
EPS (Old)	25.4	20.2	27.2
% change	-	5.5%	4.9%

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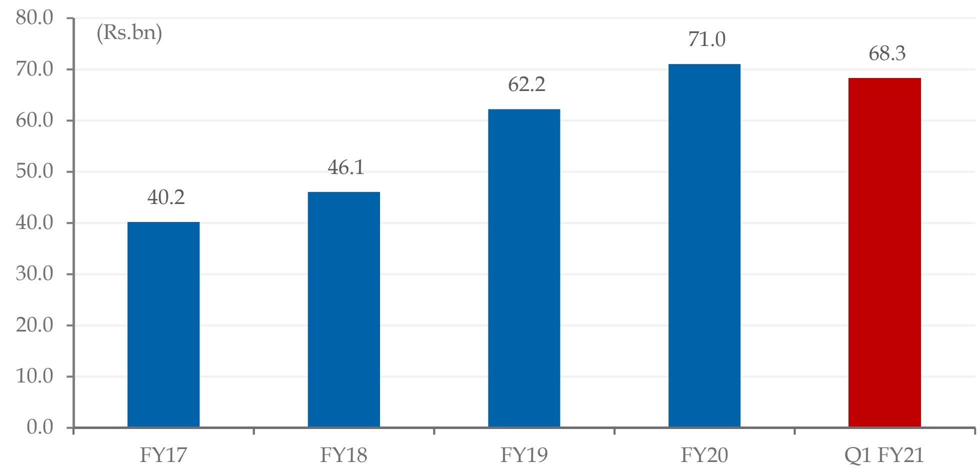
CON-CALL HIGHLIGHTS

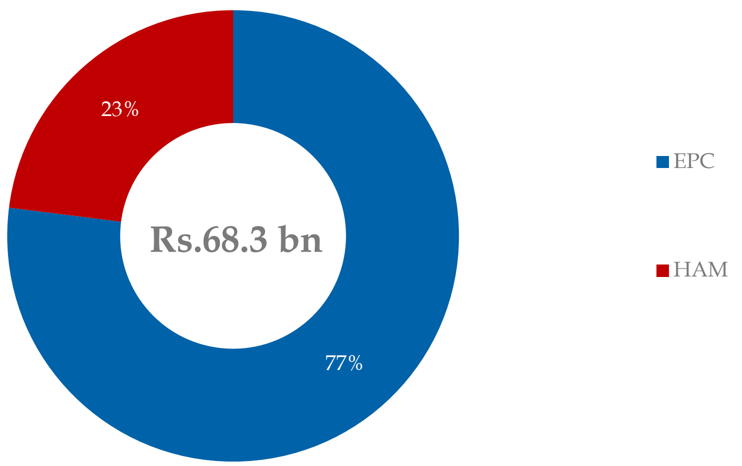
- ✓ HG Infra's performance during Q1 FY21 got impacted largely due to disruptions led by COVID-19 pandemic. However, its operations have resumed steadily and currently running at ~70-80% efficiency levels. The management expects normalized execution by Sept'20-end.
- ✓ Operating margins have remained at an elevated level of 16.5% during Q1 FY21 led by higher contribution from better margin HAM projects. The management have retained their operating margin guidance of 15%-15.5% for FY21E.
- ✓ Labour strength across project sites have improved to ~80% of the pre-covid levels. The management expects full strength by Sept'20-end.
- ✓ Order book at the end of Q1 FY21 stood at Rs.68.3bn with government/private clients contributing 69%/31% respectively. Also, EPC projects formed 77% of the total order book while balance is contributed by HAM projects.
- ✓ As per the management, the competitive intensity among bidders in the road segment is high, which has impacted order inflows for the company during YTD FY21. However, the management is confident of securing projects worth ~Rs.35bn during FY21.
- ✓ The company would focus on bidding for more of EPC projects going forward (targeting only one HAM project worth ~Rs.10bn during FY21) and would like to maintain 75%:25% ratio towards EPC: HAM projects. The company has already submitted bids for some certain projects and awaiting their outcomes soon. Also, the company is selectively looking to diversify in other segments of Railways and water infra. The Company is not looking to bid for BOT Toll projects.
- ✓ Among the major projects, the company has completed a) 60% execution in Gurgaon-Nuh (Rajiv chowk), b) 28% in Hapur Moradabad, c) 33% in Delhi-Vadodara Package 4, d) 20% in Narnual Bypass and e) 28% in Rewari Ateli Mandi HAM projects.
- ✓ The Rewari Package 4 HAM project is awaiting financial closure and appointed date on the same is expected by Oct'20. Also, the company expects receipt of appointed date in Mancherial to Repallewada EPC Project (client: Adani Road Transport Ltd) in Aug'20. Entire order book (current) is expected to come under execution during H2 FY21.
- ✓ Till 30th Jun'20, the company has infused ~Rs.1.5bn towards equity investment in various projects (infused:550mn in Q1 FY21). Equity requirement towards existing projects during FY21 is estimated to be ~Rs.1.8bn and ~700mn in FY22E.
- ✓ Gross Standalone debt at the end of June'20 increased to Rs.3.8bn (vis-à-vis ~Rs.3bn at the end of Mar'20) largely due to certain unbilled amount and equity investment in HAM. However, the management expects it to come down to ~Rs.3.2bn by FY21-end with higher cash generation and normalization of working capital requirements.
- ✓ Debtors/Creditors/Inventory at the end of Jun'20 stood at Rs.7.1bn/Rs.5.9bn/Rs.1.1bn respectively. Receivables from NHAI is ~Rs.750 mn, IRB forms nearly Rs.1.5 bn, Tata Projects is Rs.450 mn and GVK is Rs.160 mn. Debtors from private sector clients like IRB forms a large chunk of total debtors and it is crucial for the Company to recover these payments timely.
- ✓ The company has incurred ~Rs.40mn towards capex during Q1 FY20 and has guided for ~Rs.500mn during FY21E.

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



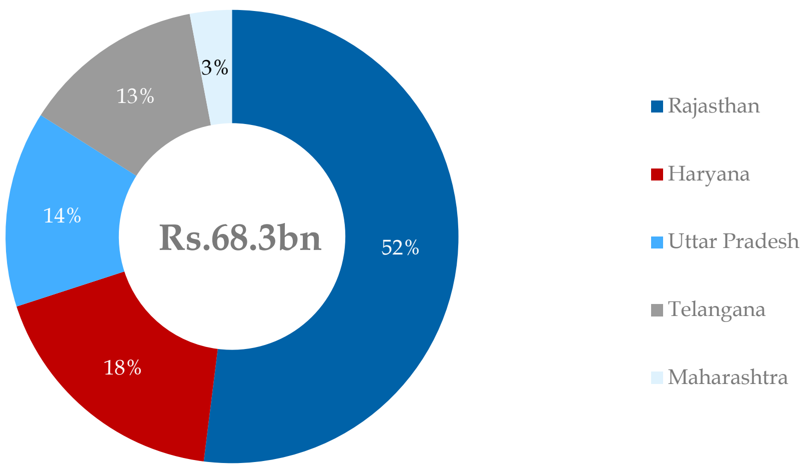
Source: Company, YES Sec – Research

Exhibit 3: EPC projects contribute 77% to the overall order book



Source: Company, YES Sec – Research

Exhibit 4: Regionally diversified order book

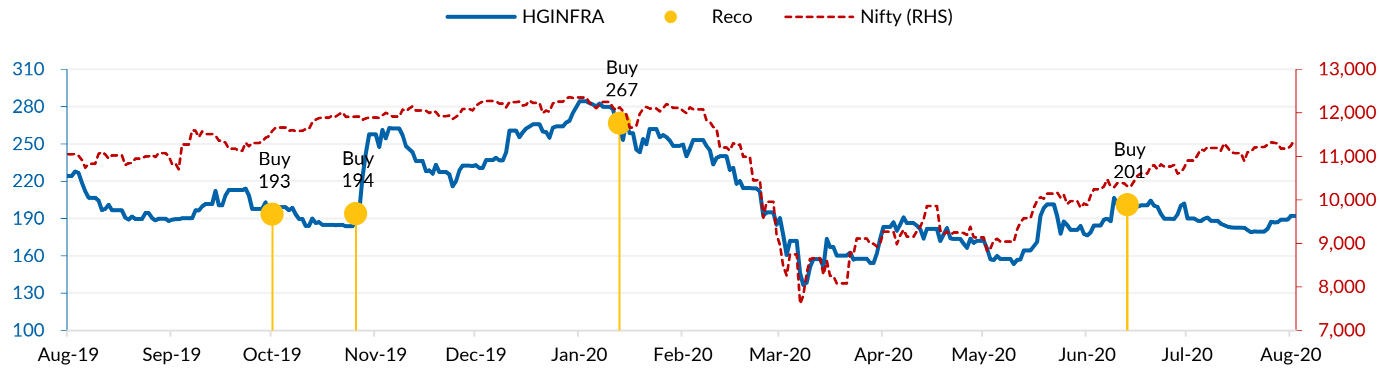


Source: Company, YES Sec – Research

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	3,073	3,819
OPM (%)	15.1	15.6	14.7	15.0
Reported PAT	1,236	1,657	1,389	1,860
Adjusted PAT	1,236	1,657	1,389	1,860
yoy growth (%)	46.6	34.1	(16.2)	33.9
EPS (Rs)	19.0	25.4	21.3	28.5
P/E (x)	10.1	7.6	9.0	6.7
EV/EBITDA (x)	4.6	4.1	4.9	3.8
Debt/Equity (x)	0.4	0.3	0.3	0.3
RoE (%)	20.6	22.4	15.6	17.8

Recommendation Tracker



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