HG Infra Engineering

Refer to important disclosures at the end of this report

Moving up the ranks

CMP	Target Price
Rs 542 as of (August 12, 2021)	Rs 800 12 months
Rating	**Upside**
BUY	47.5 %

- HG Infra has transformed itself from a sub-contractor in the road sector to one of the large EPC players with a HAM portfolio. This transformation, along with high volume, helped HG Infra increase the margin from ~12% in FY17 to ~16% in FY21.
- Investments in people, plants and processes boosted growth (29% sales CAGR over FY16-FY21) and the IPO in 2018 ensured a strong balance sheet. Working capital management has been among the best in the industry.
- The government's focus on the road sector will ensure strong growth in the medium term, while diversification in areas like water, railways and urban infrastructure will keep long-term growth prospects in the EPC business buoyant.
- We initiate coverage on HG Infra with a TP of Rs800, based on SoTP. We value the standalone EPC business at 13x Sept'23E EPS of Rs59, implying a value of Rs760/share. We value the investment in HAM at 1x Book – Rs40/share.

Moving up the ranks: HG Infra started its journey as a sub-contractor to some of the renowned EPC players in the country and has now become one of the leading EPC players with a portfolio of HAM projects. Sub-contracting, which accounted for 75%/50% of revenue in 2012/2017, now contributes less than 25%. HG has increased its pre-qualification to ~Rs28bn from Rs15bn a few years back.

Investments in plants/people/process key to success: HG invested ~Rs6.6bn in the past five years in plants & equipment to support high growth and expanded its presence to eight states from two in FY15. It has strengthened its workforce by over 50% to ~4,600 employees in the last three years. The implementation of SAP improved inventory, supply chain management and project control. We believe that these factors, along with low subcontracting works, have led to EBITDA margin expansion. Strong cash flows, along with IPO money in FY18, helped reduce debt and improve net profit margin – from 5% in FY17 to 8.3% in FY21.

Medium-term growth prospects high in road sector; diversification also on the cards: Investments in the road sector during FY21-FY25 are expected to be 1.6x investments made during FY16-FY21 as per industry estimates. EPC opportunities in water, railways and urban infrastructure are large and, hence, diversification efforts will pay off in the long term.

Among the best across parameters: HG Infra has clocked a sales CAGR of 29% over the past five years (vs. 20%/25/18% for PNC/KNR/DBL). The EBITDA margin of 16% is comparable to peers' 15-20% range. Average NWC days of last three years at 40 is better than the majority of the players', while core RoE of 27% is superior to peers (12-23%).

Valuation and Outlook: We estimate a 24% EPS CAGR over FY21-FY24, aided by order wins in both EPC and HAM as HG can now bid for a majority of large road projects. We initiate with a TP of Rs800, valuing the EPC business at 13x Sep'23E EPS of Rs59. Peers are trading in the 9-17x range with a 500-700bps lower RoE. Key risk: slow ordering in the road sector.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	21,961	25,275	31,679	38,402	43,138
EBITDA	3,424	4,107	5,189	6,194	6,936
EBITDA Margin (%)	15.6	16.2	16.4	16.1	16.1
APAT	1,657	2,110	2,902	3,579	4,055
EPS (Rs)	25.4	32.4	44.5	54.9	62.2
EPS (% chg)	34.2	27.3	37.6	23.3	13.3
ROE (%)	22.4	22.8	24.7	23.8	21.5
P/E (x)	21.3	16.8	12.2	9.9	8.7
EV/EBITDA (x)	11.1	8.5	6.6	5.5	4.5
P/BV (x)	4.3	3.4	2.7	2.1	1.7

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY22E/FY23E (%)	-/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	NA

Emkay vs Consensus		
EPS Estimates		
	FY22E	**FY23E**
Emkay	44.5	54.9
Consensus	43.1	58.0
Mean Consensus TP (12M)		Rs 626

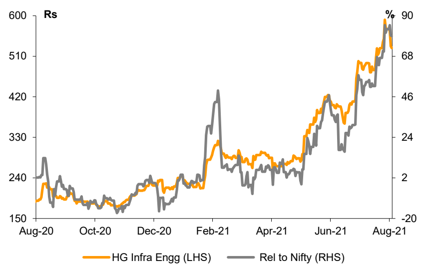
Stock Details	
Bloomberg Code	HGINFRA IN
Face Value (Rs)	10
Shares outstanding (mn)	65
52 Week H/L	630 / 151
M Cap (Rs bn/USD bn)	35 / 0.48
Daily Avg Volume (nos.)	6,11,819
Daily Avg Turnover (US$ mn)	3.8

Shareholding Pattern Jun '21	
Promoters	74.5%
FIIs	0.5%
DIIs	16.5%
Public and Others	8.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	13	85	73	190
Rel. to Nifty	8	66	61	101

Relative price chart



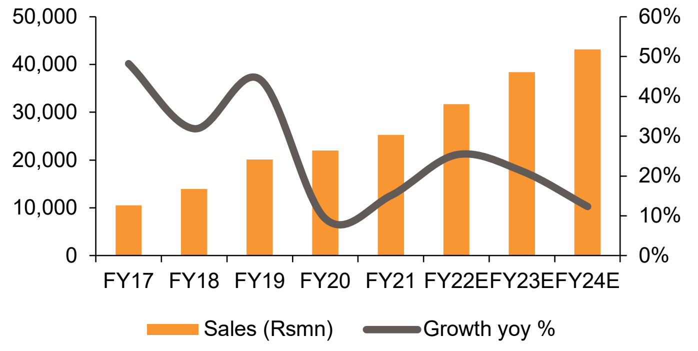
Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Abhineet Anand
abhineet.anand@emkayglobal.com
+91 22 6624 2466

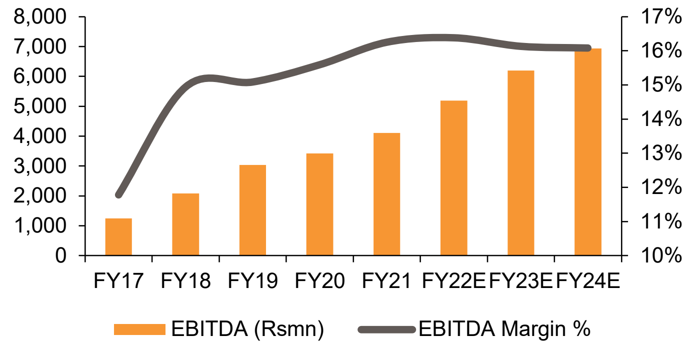
Story in Charts

Exhibit 1: We expect sales to grow at CAGR of ~19% in next three years (FY21-24E) and



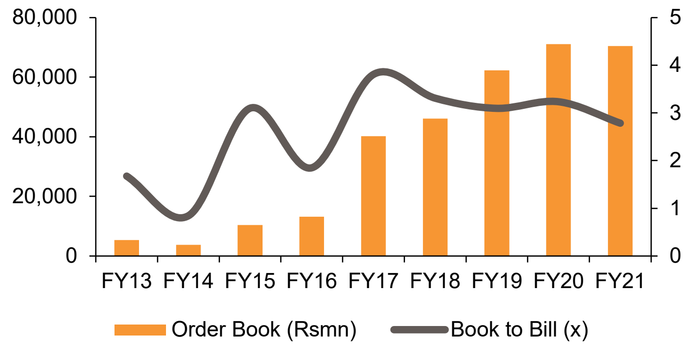
Source: Company, Emkay Research

Exhibit 2: …EBITDA to grow at CAGR of ~20% in the same period



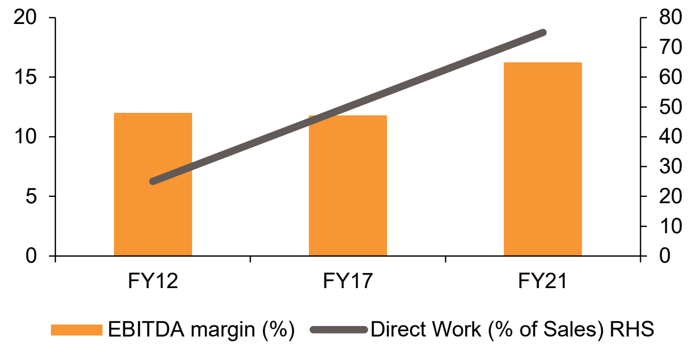
Source: Company, Emkay Research

Exhibit 3: Average book to bill stands at 3.25 (x)



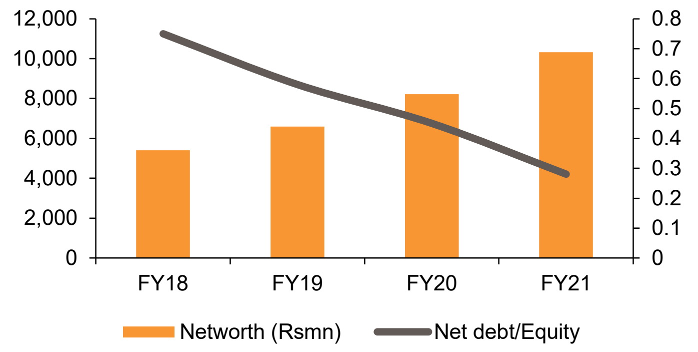
Source: Company, Emkay Research

Exhibit 4: Direct work (% of sales) has increased from 25% to 75%, while at the same EBITDA margins have grown ~400bps



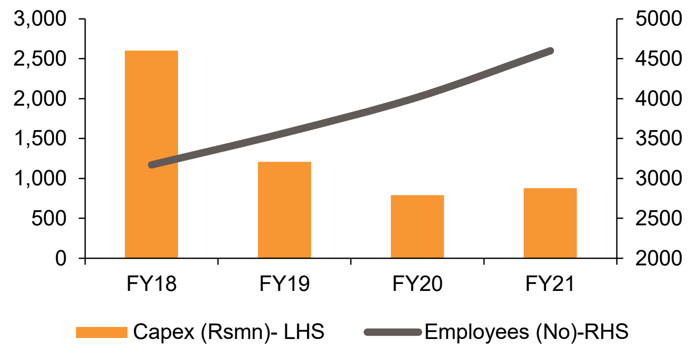
Source: Company, Emkay Research

Exhibit 5: Net debt/equity has come down to 0.28 from 0.75



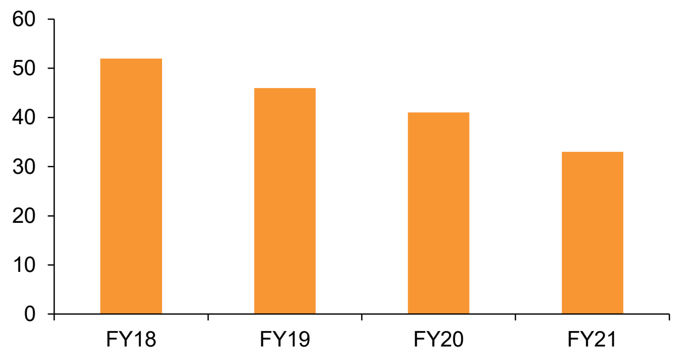
Source: Company, Emkay Research

Exhibit 6: Cumulative capex stands at ~Rs5.5bn



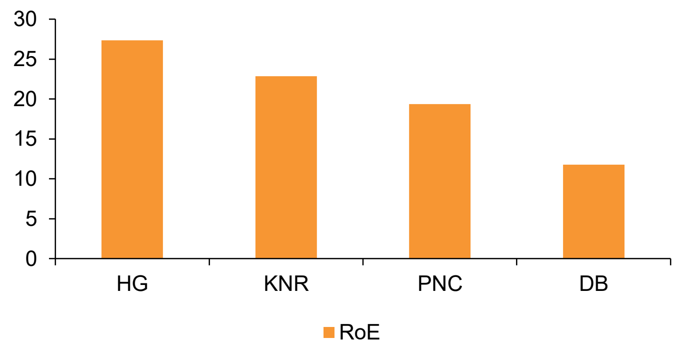
Source: Company, Emkay Research

Exhibit 7: Net working capital days has improved significantly from 52 days in FY18 to 33 days in FY21



Source: Company, Emkay Research

Exhibit 8: Core EPC ROE (FY21) at ~27%



Source: Company, Emkay Research

Moving up the ranks

The company bagged its first sub-contracting project in 2008, which involved the construction of embankment and other works, for an amount of ~Rs149mn. Then soon enough in 2010, it bagged another major sub-contracting project, which involved four laning of 49kms on NH12, worth ~Rs2.57bn.

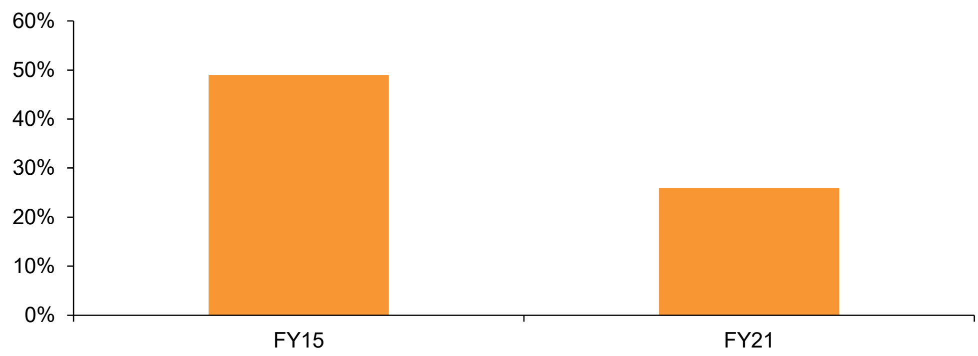
Over the years, it has executed multiple projects in the capacity of sub-contractor for large private clients such as Tata Projects Ltd. and IRB-Modern Road Makers Pvt Ltd. Additionally, as a sub-contractor, it had undertaken two water supply projects in Rajasthan on a turnkey basis, which contributed close to ~17%/2% of revenues/order book in FY17. Such steady progress and the ability to meet client expectations allowed the company to build a healthy rapport with clients, increase its capability to bid for larger projects independently, and consequently reduce its revenue exposure to sub-contracting from 49% in FY15 to 26% in FY21.

Exhibit 9: Snapshot of company's development as a subcontractor to leading road developer with pan India presence

	Phase I (2008-2012)	Phase II (2013-2017)	Phase III (2018-2021)...
	Subcontractor with major experience in 1 state	Upcoming prime contractor starting contracts with NHAI	Leading road developer with pan India presence
Capabilities	PWD/ Civil construction	Highways/ Expressways	High value Road EPC & HAM
Revenue as prime contractor	~25%	~50%	~75%
EPC PQ	~Rs 500 Mn	Rs 15,000 Mn	Rs 28,000 Mn
Geographical Presence	2 State	6 states	8 States
Revenue	Rs 2,872 Mn (FY12)	Rs 10,560 Mn (FY17)	Rs 25,275 Mn (FY21)
EBITDA Margin	13.8% (FY12)	12.0% (FY17)	16.2% (FY21)
PAT	Rs 132 Mn (FY12)	Rs 534 Mn (FY17)	Rs 2,110 Mn (FY21)
Gross Block	Rs 1,193 Mn (FY12)	Rs 2,294 Mn (FY17)	Rs 7,602 Mn (FY21)
Debt/Equity	1.75x (FY12)	1.16x (FY17)	0.28x (FY21)

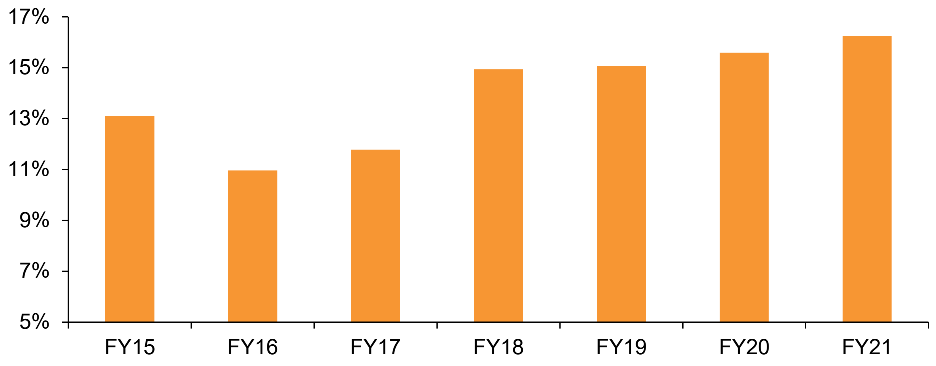
Source: Company, Emkay Research

Exhibit 10: Sub-contracting sales (as % of total sales) has declined dramatically over the years, given the increasing magnitude in pre-qualification for EPC & HAM projects



Source: Company, Emkay Research

Exhibit 11: EBITDA margin has increased from ~11% in FY16 to ~16% in FY21



Source: Company, Emkay Research

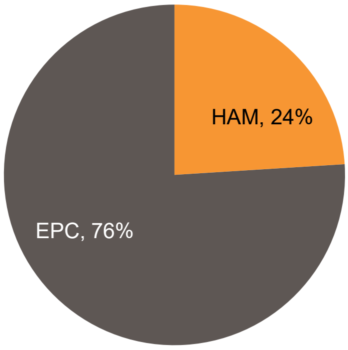
Exhibit 12: Major ongoing subcontracting projects

Project Name	State	Client	Project Size (Rsmn)
Bhilwara (Gulabpura - Chittor)	Rajasthan	Modern Road Makers	7,113
Mancherial to Repallewada	Telengana	Adani Road Developers	9,508
Hapur bypass to Moradabad	Uttar Pradesh	IRB Infra Developer	11,723

Source: Company, Emkay Research

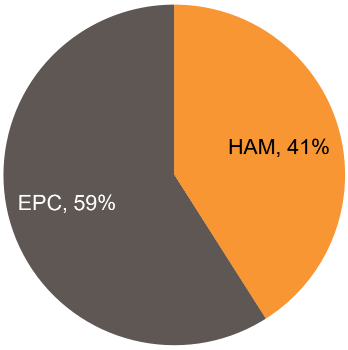
Selective margin accretive HAM projects to add to growth, monetization post CoD an option: The company bagged its first Hybrid Annuity Model (HAM), i.e. Gurgaon Sohna (Rajiv Chowk), in Feb'18 (bid project cost: ~Rs6bn). Since then, it has cumulatively bagged 7 HAM projects. Given the size and need of a strong balance sheet, keeps competition in HAM projects limited to certain extent compared to EPC projects. HG's order book has clearly seen a change from mix of project basis. HAM projects constituted 41% of the overall OB, compared to 24% in FY20 and negligible few years back. Going ahead, the company will adopt a very selective approach to bidding for HAM projects. Management also aims to monetize the existing HAM projects post CoD, which can support further growth.

Exhibit 13: Share of HAM projects in total order book has increased from 24% in FY20 to….



Source: Company, Emkay Research

Exhibit 14: …41% in FY21



Source: Company, Emkay Research

Exhibit 15: List of ongoing HAM projects (Mar'21)

Project	Awarding authority	State	Kms Lanes	BPC (Rs. Mn)	Grant Amount (Rs. Mn)	Total Debt (Rs. Mn)	Invested Equity (Rs. Mn)	Debt as on 31st Mar '21 (Rs. Mn)	% completed as of Mar'21
Gurgaon-Sohna (Rajiv chowk)	NHAI	Haryana	12.7	6,060	2,424	2,879	656	1,939.50	82%
Rewari Ateli Mandi	NHAI	Haryana	30.4	5,800	2,320	2,270	531.5	998	62%
Narnaul Bypass	NHAI	Haryana	40.8	9,521	3,808	4,060	1010.9	1,782.50	65%
Rewari Bypass Pkg-4	NHAI	Telangana	14.4	5,220	2,088	2,200	413.7	100	12%
Khammam Devarapalle Pkg-1*	NHAI	Telangana	33.6	7,721	3,088	3,500	-	-	-
Khammam Devarapalle Pkg-2*	NHAI	Andhra	29.5	6,371	2,548	2,900	-	-	-
Raipur Visakhapatnam*	NHAI	Pradesh	31.8	10,601	4,240	4,400	-	-	-

Source: Company, Emkay Research

In order to reduce the impact on road developers and remove the hurdles, the government has implemented several changes, such as 1) release of retention money/performance security based on execution, 2) monthly billing from milestone billing, 3) quicker resolution of disputes through reconciliation, and 4) revision of the model concession agreement (MCA) for HAM and BOT projects.

Exhibit 16: Overview of recent changes in HAM projects

	Old clause	Revised clause	Impact
Annuity payments	Interest on annuity payment linked to RBI determined bank rate +3%	Interest on annuity payment linked to average of 1-year MCLR of top 5 scheduled commercial banks	Differential between cost of borrowing and interest on annuity reduced, thus preventing erosion of developers' returns due to RBI repo rate changes
Milestone payments	5 instalments, each equal to 8% of the bid project cost	10 instalments, each equal to 4% of the bid project cost	Quicker payments helping the developers' liquidity
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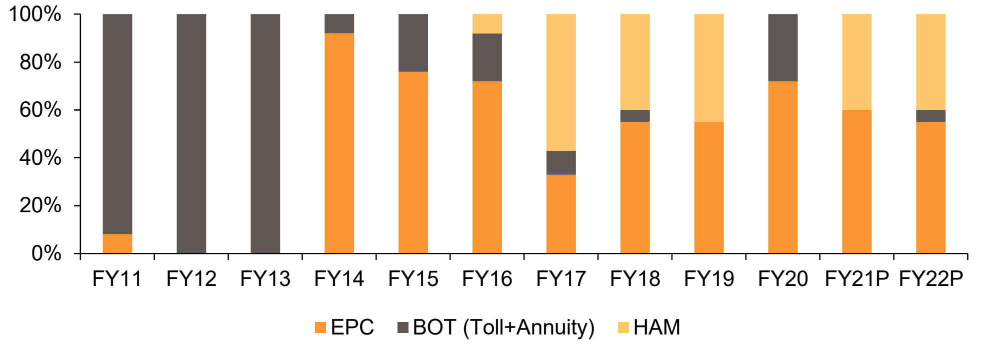
Financial clause	No clarity on amount on FC	FC to be undertaken for an amount no lower than either: 1. total project cost (60%of BPC) 2. 10% less than (estimated project cost minus 40% of the bid project cost)	Would prevent termination of projects due to inadequate financing
Dispute resolution board	In case of dispute, other party may call upon the independent engineer (IE) to mediate	Failing mediation by the IE, either party may require such dispute to be referred to the dispute resolution board (DRB)	Quicker dispute resolution mechanism to prevent stuck projects
Others	Interest mobilization advance linked to the bank rate. Termination payments based on previous milestone payments	Interest on mobilization advance linked to MCLR. Termination payments based on new milestone payments	NA

Source: GR Infra Prospectus, Emkay Research

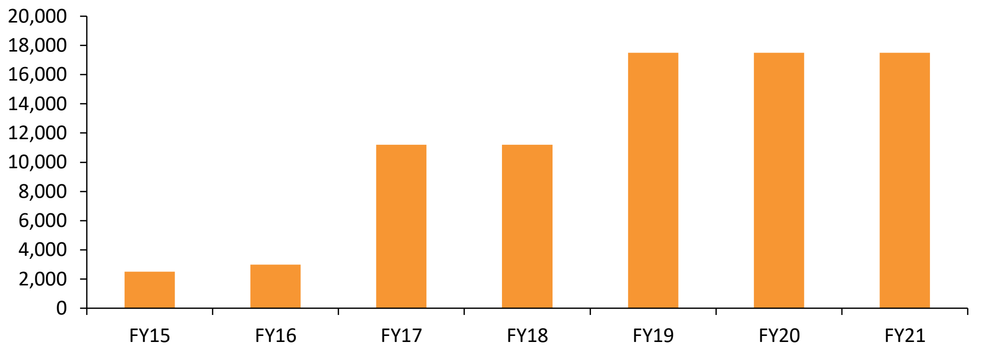
Exhibit 17: Split of NHAI projects awarded under different contracts



Source: Industry, Emkay Research

Considering the healthy track record in execution of numerous road and highway projects, HG Infra's pre-qualification to independently bid for NHAI/MoRTH contracts increased multifold (~7x) in the last five years to Rs17.5bn in FY21. Given that a major chunk of NHAI awards (~95%) are limited to ~Rs20bn in value, such an improvement in bidding ability has substantially expanded the project universe available to the company and reduced competitive intensity (as evident in large ticket orders).

Exhibit 18: EPC Pre-Qualification trend upward



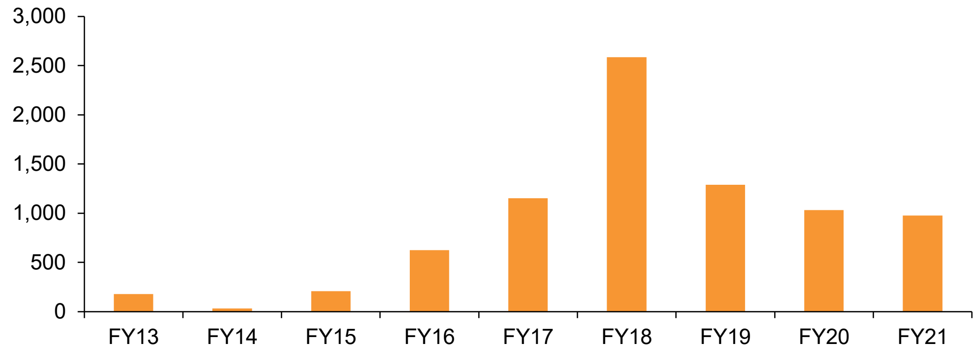
Source: Company, Emkay Research

Investments in plants, people and process key for success

Investments in plants, people and processes helped HG Infra achieve this scale of operations – revenue CAGR of 28% in the last five years. It invested ~Rs6.6bn in the past five years in plants & equipment to support high growth and expanded its presence to eight states from two in FY15.

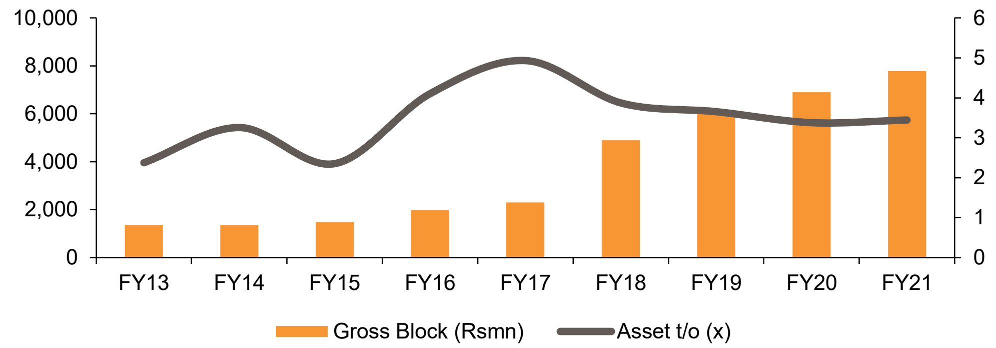
HG has emerged as one of the most efficient road EPC infrastructure development players over the last few years, reflected in its ever-improving project execution capabilities, robust order book growth (40% CAGR FY16-21; 2.8x TTM book to bill), adoption of technology in various verticals and increasing modern equipment ownership (~1900 equipment in house vs. ~1000 in FY17, eliminating rent & interest costs). In order to support such order book momentum and to consequently meet advanced project requirements, the company shelled out ~Rs7.6bn in overall capex during FY16-21. As a result, the gross block has seen a CAGR of ~30% to ~Rs7.7bn as of Mar'21.

Exhibit 19: Increase in capex intensity to support high growth



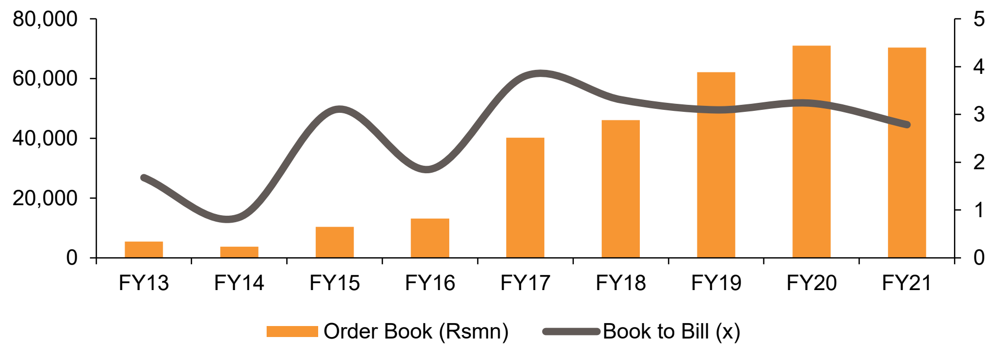
Source: Company, Emkay Research

Exhibit 20: Average asset t/o in last five year's stood at ~4.0x, while gross block has close to tripled during same period



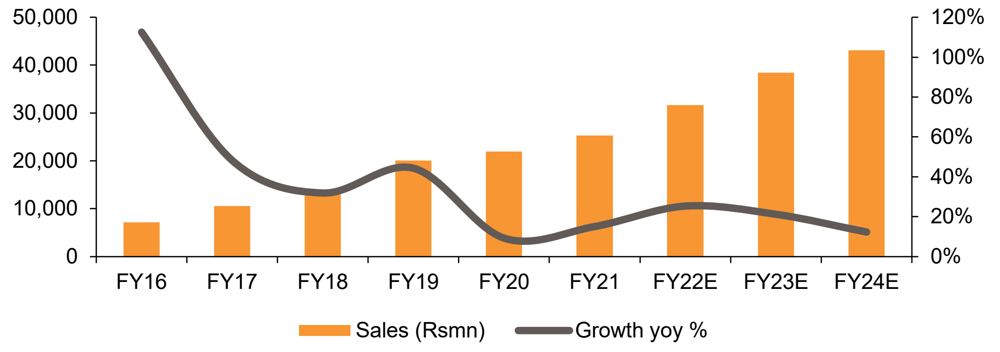
Source: Company, Emkay Research

Exhibit 21: Average book to bill (x) stands close to ~3.0x (FY16-21)



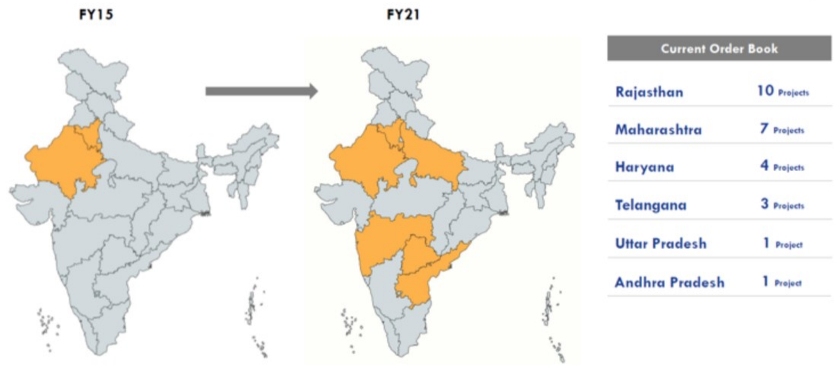
Source: Company, Emkay Research

Exhibit 22: Sales have grown at CAGR of ~29% in FY16-21, while we anticipate it grow at ~20% CAGR (FY21-24E)



Source: Company, Emkay Research

Exhibit 23: Company has grown its presence from 2 states to close to 8 states



Source: Company, Emkay Research

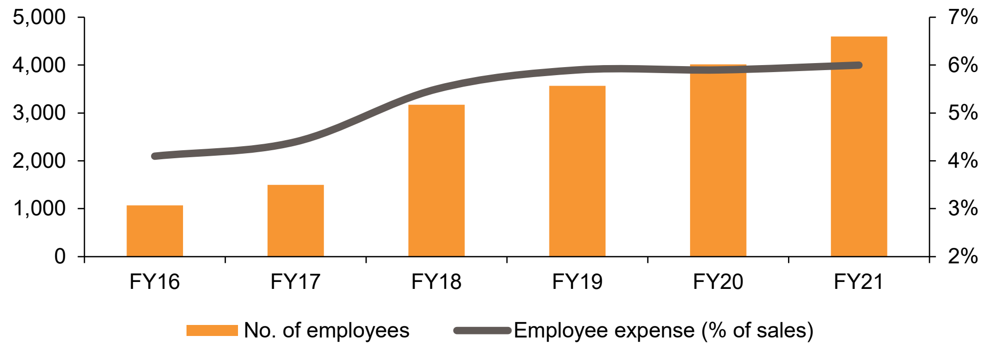
Increasing ownership of in-house equipment ensures control over execution, availability and quick mobilization, eliminating delays and cost overruns.

Exhibit 24: Strong fleet of modern construction equipment

Source: Company, Emkay Research

On the human resources side, the workforce increased by over 50% to ~4,600 employees in the last three years. The majority (80%) of the employees are qualified engineers and management professionals.

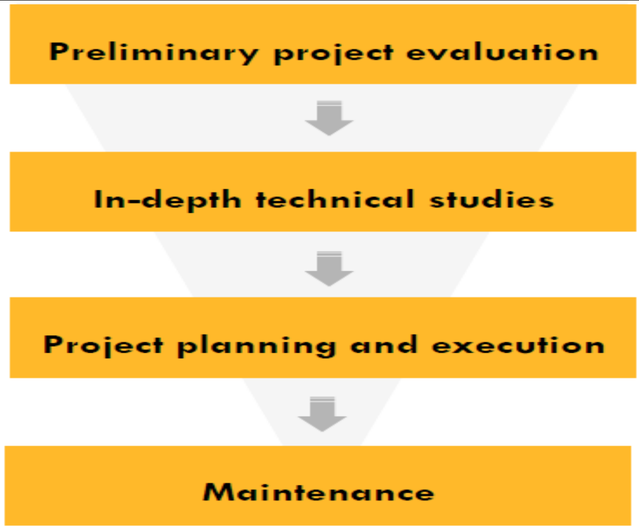
Exhibit 25: Number of employees (skilled + laborers) have increased from ~1,000 in FY16 to 4,600 in FY21



Source: Company, Emkay Research

Given the company's background and expertise as a sub-contractor for large players, its business model has minimal subcontracting for cost optimization and better efficiency. Implementation of SAP has helped in improving inventory, supply chain management and project control. HG is in the process of installing GPS tracking devices in its equipment fleet.

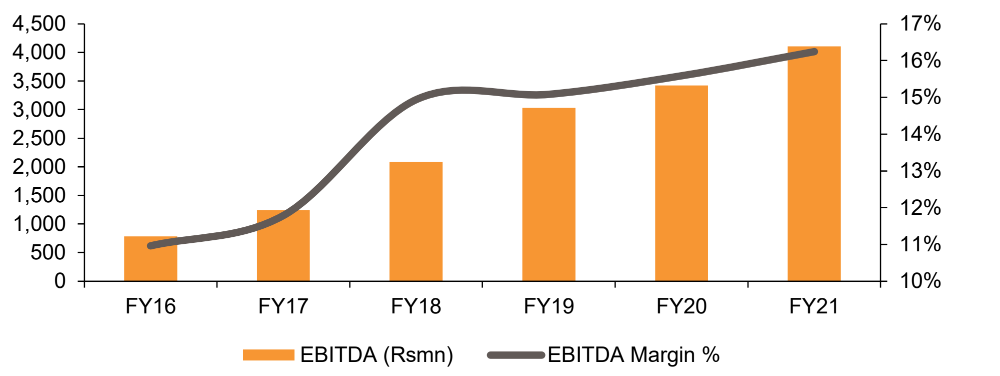
Exhibit 26: Process flow undertaken by the company in evaluating projects



Source: Company, Emkay Research

We believe that these investments in plants (machines), people and processes, along with lower subcontracting works, have led to EBITDA margin expansion.

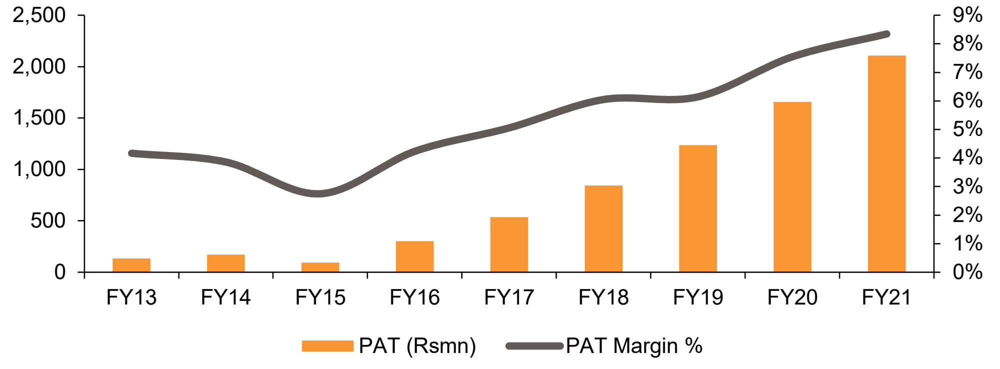
Exhibit 27: EBITDA margins have grown close to 400bps in last 5 years, on the back of various operational improvements



Source: Company, Emkay Research

Strong cash flows, along with IPO money, in FY18 reduced debt and improved net profit margin – from 5% in FY17 to 8.3% in FY21.

Exhibit 28: Operating margin benefits have flowed very well into the bottom-line as PAT margin too has improved by similar magnitude



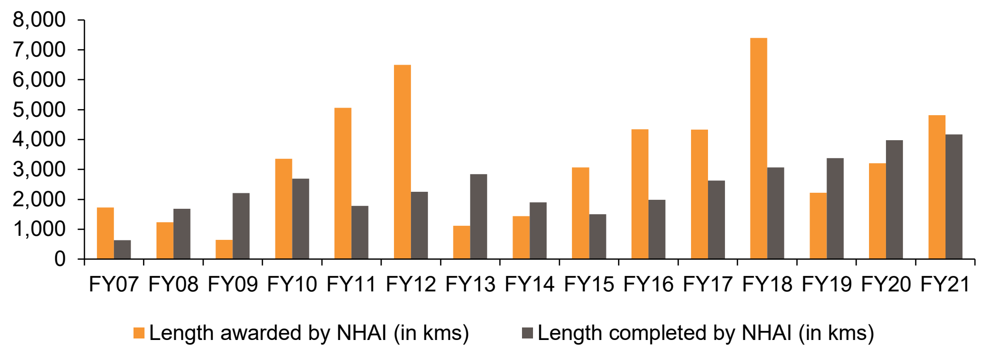
Source: Company, Emkay Research

Medium-term growth prospects high in road sector, diversification on cards as well

Road infrastructure activity has seen a jump in the last 4-5 years, predominantly led by the government's heightened focus on improving road connectivity across the country, considering the role such connectivity plays in driving the country's economic growth. The pace of road construction, though slightly dampened due to Covid-19 concerns, has accelerated from 17kms/day (CY16) to 26kms/day (CY20).

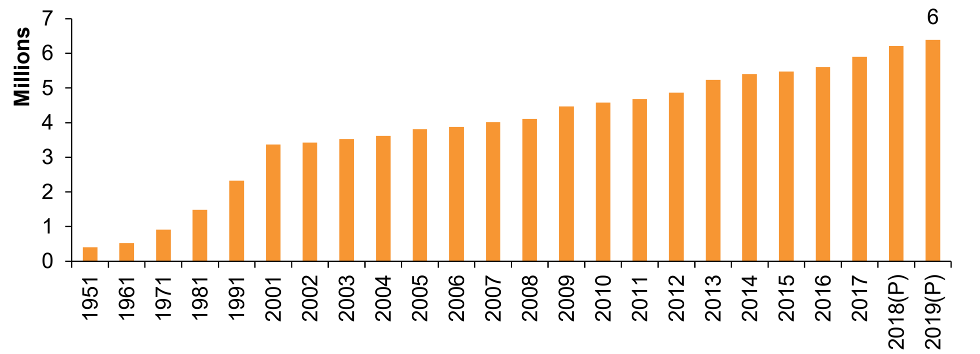
Road construction in the second half of FY21, post a gradual lifting of Covid related lockdowns, came back stronger than expected, with increased awarding activity as well as a record pace of construction. Even though the second wave of Covid caught many players off guard and led to a labor shortage, we believe the learning for road contractors from last year should help them quickly overcome the hurdles this time around. Although the pace of construction of national highways declined sharply in Apr'21 to ~28kms/day from ~70kms/day in Mar'21, the Apr'21 levels were still 4x of that achieved in Apr'20.

Exhibit 29: Trend of awards and construction by NHAI, for all types of road in India



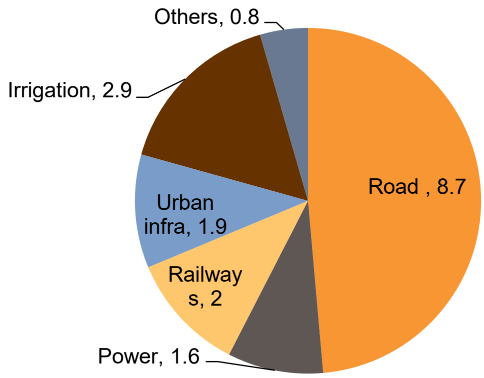
Source: Industry, Crisil Research, Emkay Research

Exhibit 30: Total road length (in mn kms) constructed in India



Source: Industry, Emkay Research

Exhibit 31: Total construction spending in key infrastructure segments; FY15-19 (in Rs tn)



Source: Industry, Emkay Research

Management announced plans to diversify the order book position from only roads/highways (~98% of current OB) to include railways & metro (civil works for track laying), water (water pipelines for last mile connectivity, 1 project) and aviation (runways, taxiways; 1 project). By the end of FY22, management expects the new sectors to contribute close to 10% of the total order book and ~Rs10bn in order inflows during the year. Considering the fact that it has limited experience in the execution of allied infra contracts, the company may enter into JVs or form consortiums with other players for such larger projects, which require specific experience.

Bharatmala Pariyojana: This is a new scheme, which supersedes the National Highway Development Program (NHDP), with the aim of constructing 65,000kms of highways under the following categories: National Corridor (North-South, East-West and Golden Quadrilateral), economic corridors, inter-corridor roads, feeder roads, international connectivity, border roads, coastal roads, port connectivity roads and expressways. The scheme will include the existing NHDP programs as well. The first phase of the Bharatmala scheme approved in 2017 includes the construction of 24,800kms of national highways, in addition to 10,000kms of balance road works under the NHDP. Out of this, almost 13,500kms of projects in length have been awarded as of Dec'20.

Exhibit 32: Components of Bharatmala Pariyojana

Category	Description	Total Length Identified (km)	Upgrade proposed in Phase I (km)
National Corridors Efficiency Improvement	Lane expansion, de-congestion of existing National Corridors	13,100	5,000
Economic Corridors development	Connection of economically important production & consumption centers	26,200	9,000
Inter-corridor and Feeder routes development	Inter-connection between economic corridors, first mile & last mile connectivity	15,500	6,000
Border and International Connectivity Roads	Connectivity to border areas and boosting trade with neighboring countries	5,300	2,000
Coastal and Port Connectivity Roads	Connectivity to coastal areas to enable port-led economic development	4,100	2,000
Expressways	Greenfield expressways	1,900	800
TOTAL		**66,100**	**24,800**

Source: Bharatmala Project PPT, Emkay Research

Exhibit 33: Delegation of powers to implementing agencies

Project Mode	Project Value	Approval Mechanism
EPC Projects	No limit	NHAI Board
PPP Projects	BOT (Toll)	NHAI Board if No VGF required
	BOT (Toll) - VGF Required	As per DEA Guidelines
	BOT (Annuity/ HAM) Upto INR 2,000 Cr	• Appraised by SFC chaired by Secretary, RTH • Approved by Hon' ble Minister RTH
	BOT (Annuity/ HAM) > INR 2,000 Cr	• Appraised by PPPAC • Approved by CCEA

Source: Bharatmala Project PPT, Emkay Research

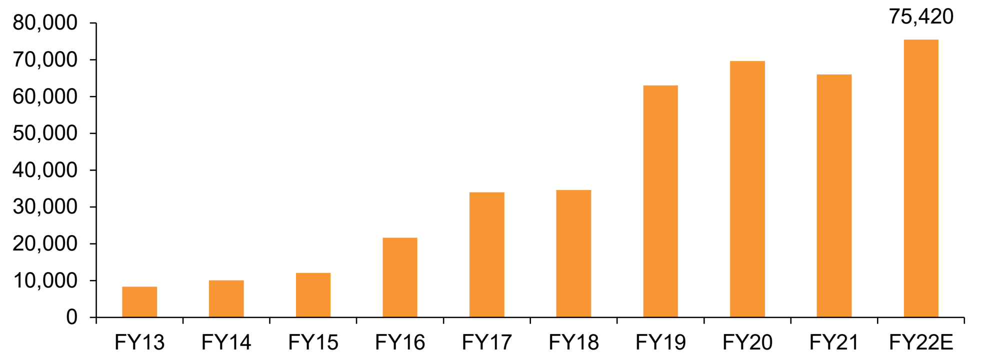
Exhibit 34: Proposed outlay

Sr. No.	Component	Length (km)	Outlay (Rs. Cr.)
A.	**Components under Phase-I of Bharatmala**		
1	Economic Corridor Development	9,000	1,20,000
2	Inter-corridors and Feeder Roads	6,000	80,000
3	National Corridor Efficiency Improvement	5,000	1,00,000
4	Border & International Connectivity Roads	2,000	25,000
5	Coastal & Port Connectivity Roads	2,000	20,000
6	Expressways	800	40,000
	Sub-total (A)	**24,800**	**385,000**
B	Balance Road works under NHDP	10,000	1,50,000
	Sub-total (A+B)	**34,800**	**5,35,000**
C	Roads under other existing schemes (E.g., LWE, SARDP-NE, NHIIP, Setu Bharatam, Char Dham)	48,877	1,57,324
	Grand Total	**83,677**	**6,92,324**

Source: Bharatmala Project PPT, Emkay Research

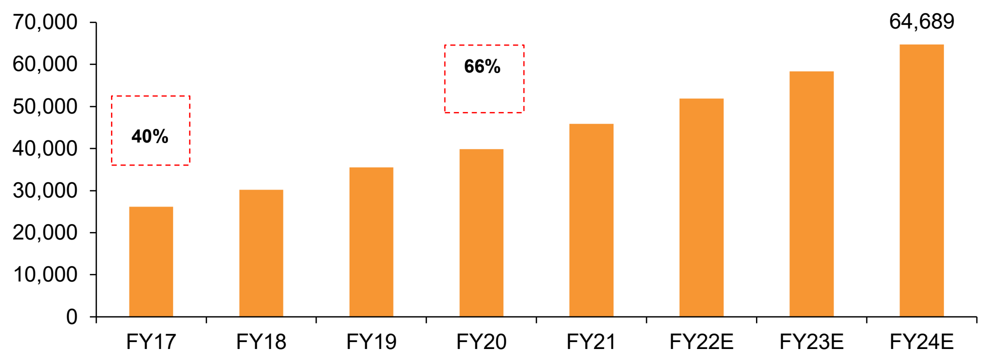
Railways: For domestic EPC players, there are many opportunities in the Railways segment. The opportunity window has greatly expanded over the years, backed by clear goal-setting by the government, such as 100% railway electrification by Dec'23 and speed upgradation of tracks to enhance the speed of passenger trains by Mar'24. The railways sector has received a budgetary allocation of Rs1.1tn and a capex outlay of close to Rs2.14tn for FY22.

Exhibit 35: Budget allocation for electrification project reached its highest point in FY22 (Rs mn)



Source: Industry, Emkay Research

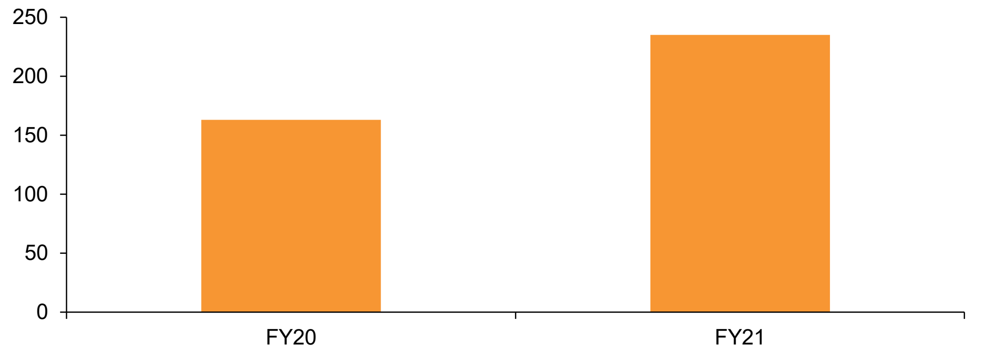
Exhibit 36: Pace of electrification picked up pace in last few years (Route kms); Electrified RKM moved up from 40% to 66% (% of total rail network)



Source: Industry, Emkay Research

Water: In order to ensure a clean and reliable water supply for household consumption and irrigation, the government has proposed an outlay of Rs2.87tn over the next five years to install water tap connections and ensure universal water supply under Jal Jeevan Mission in the union budget 2021-22. Such funding shall be directed to enhance local water resources and lay inter-state water pipelines as well as distribution infrastructure to ensure adequate water supply in the country.

Exhibit 37: Budget allocation toward Jal Jeevan Mission; including both Gross Budgetary Support and Extra Budgetary Resource (Rs bn)

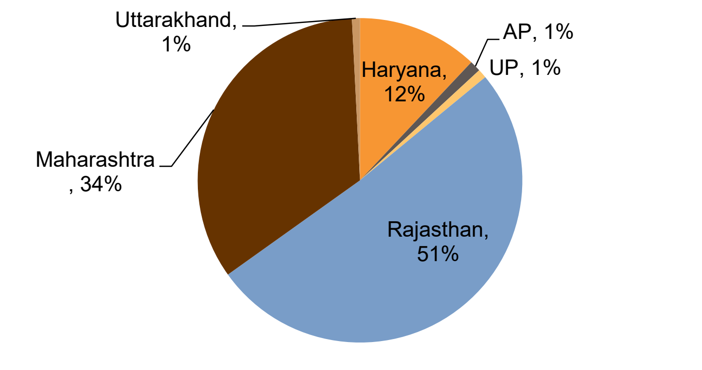


Source: Jal Shakti Annual Report, Emkay Research

Strong order backlog with large chunk toward government spending; Geography and Industry diversification to instill buoyancy in sales trajectory over longer term: Given its long-term execution track record, HG Infra has built a good rapport with clientele that spans across the public (NHAI, MoRTH, various PWDs, etc.) and private sectors (Tata Projects, Adani Road Transport, IRB etc.), with government orders forming a large share of its current order book (78% as of FY21). Overall, its order book recorded a healthy 40% CAGR in FY16-21, resulting in a ~29% sales CAGR during the same period. The share of sub-contracting revenues too came down significantly from 55% in FY15 to 26% in FY20, transforming the company's position from a sub-contractor to a principal contractor.

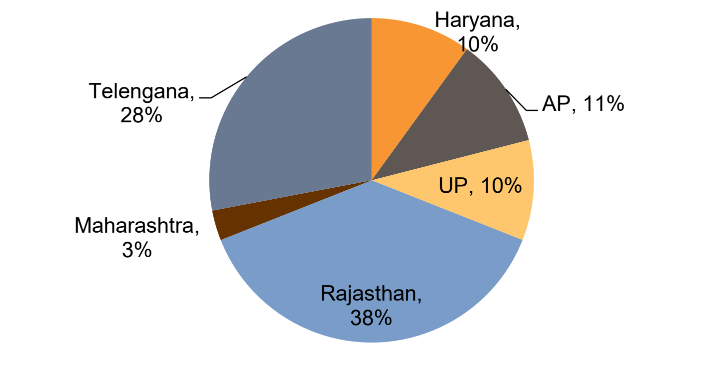
Starting out in just one state (Rajasthan) in 2003, HG Infra over the years expanded into other states to reduce its dependence on one state. The company is currently operating in eight states, with Rajasthan, Telangana and Andhra Pradesh contributing 38%/28%/11% of the total order book as of Mar'21. Such a well-diversified order book reduces state-specific risks and enhances the set of opportunities available to developers. Management aims to further gain footing in key western and northern markets such as Gujarat and Madhya Pradesh.

Exhibit 38: Share of Rajasthan in order book came down from 51% in FY18 to…



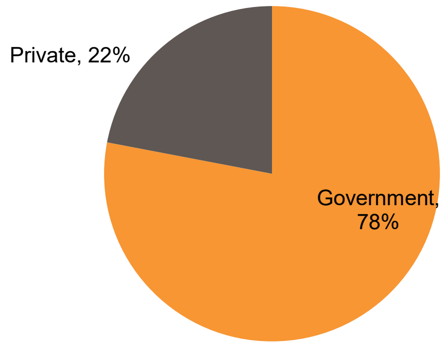
Source: Company, Emkay Research

Exhibit 39: …38% in FY21



Source: Company, Emkay Research

Exhibit 40: Government contribution makes up a majority of the total order book (FY21)



Source: Industry, Emkay Research

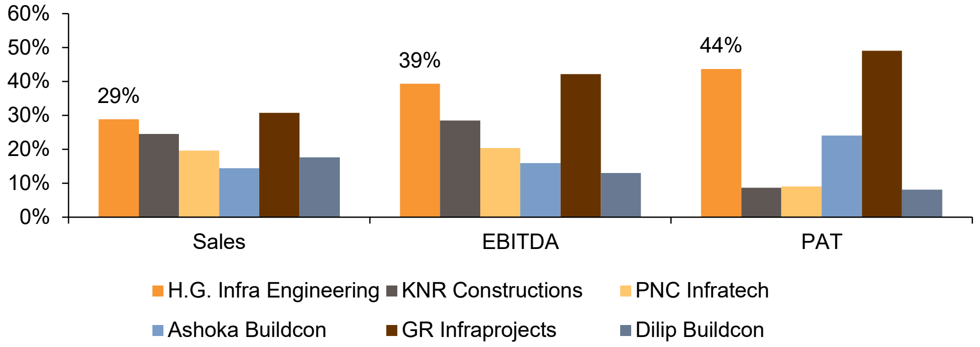
Exhibit 41: List of projects - unexecuted order book as of FY21

Projects	Rs mn
Delhi Vadodara Pkg-9	10,339
Mancherial - Repallewa	7,748
Hapur Morradabad	5,854
Delhi Vadodara Pkg-8	6,765
Delhi Vadodara Pkg-4	3,407
Narnual Bypass	3,332
Rewari Bypass Pkg-4	3,391
Rewari Ateli Mandi	2,294
Gurgaon-Sohna (Rajiv chowk)	1,156
MoRTH Projects (MH)	2,235
Rajasthan Project (World Bank funded)	1,054
Khammam-Devarapalle P1	5,893
Khammam-Devarapalle P2	4,857
Raipur-Visakhapatnam AP P1	7,679
Others	4,396
Total	**70,400**

Source: Company, Emkay Research

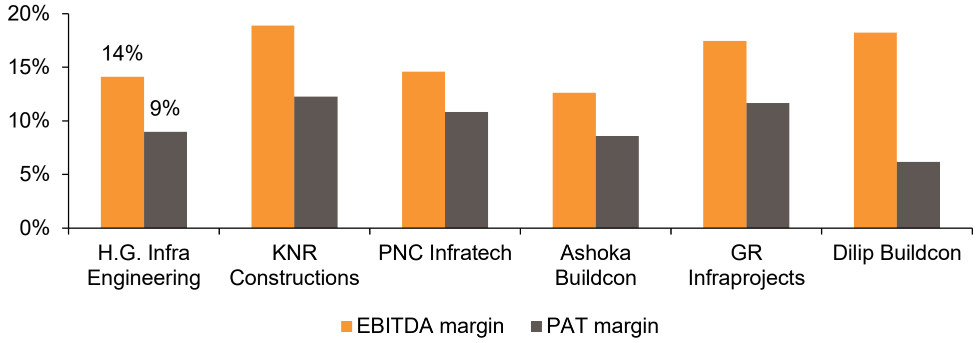
Peer comparison

Exhibit 42: Revenue, EBITDA, PAT growth comparison (CAGR from FY16-21)



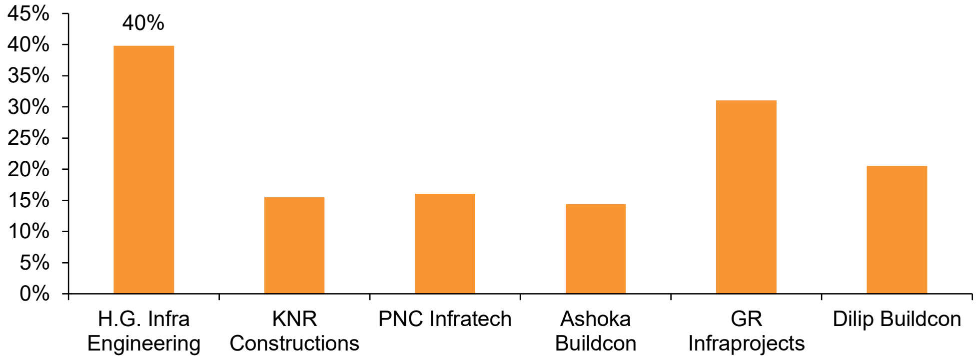
Source: Company, Emkay Research

Exhibit 43: Average EBITDA and PAT margin comparison (FY16-21)



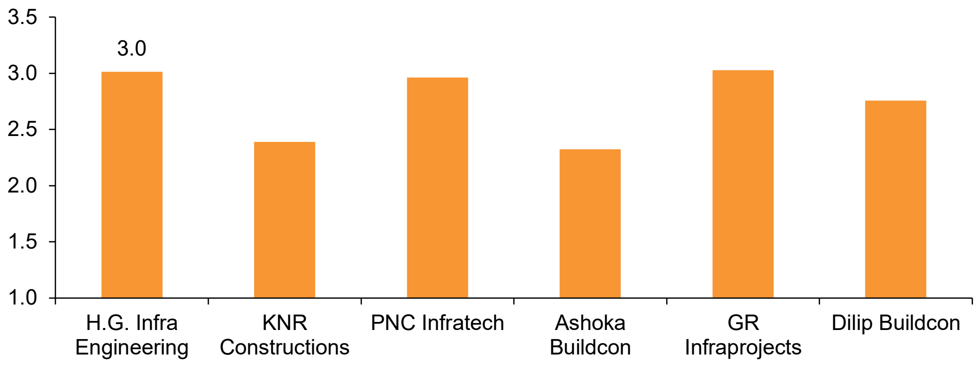
Source: Company, Emkay Research

Exhibit 44: Order book CAGR (FY16-21)



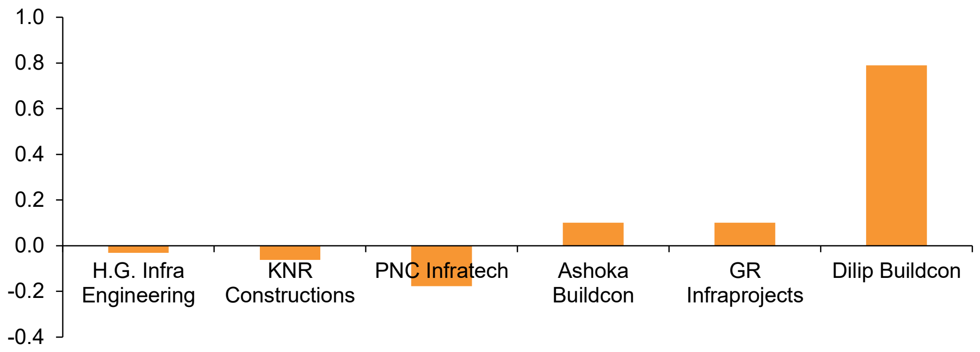
Source: Company, Emkay Research

Exhibit 45: Average book to bill (FY16-21)



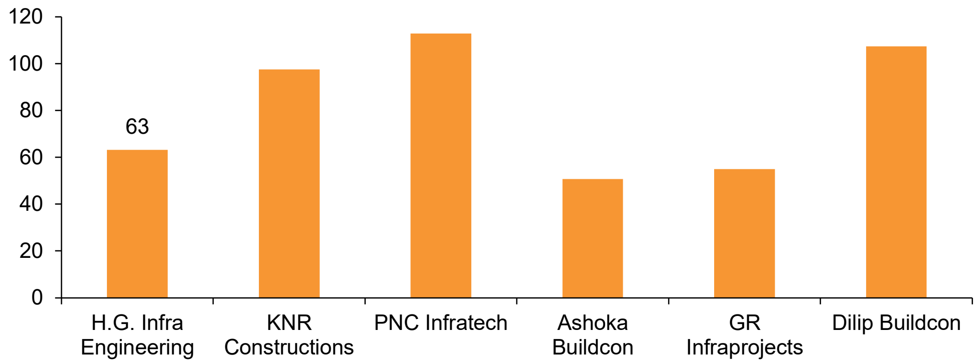
Source: Company, Emkay Research

Exhibit 46: Net Debt/Equity (as of FY21)



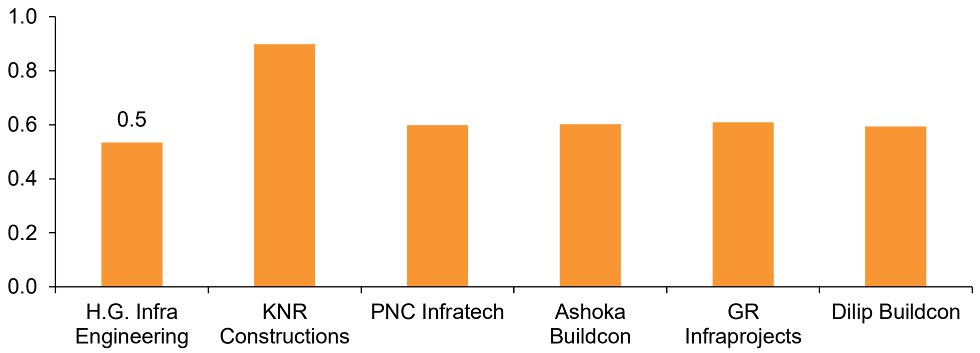
Source: Company, Emkay Research

Exhibit 47: Average Working Capital Days (FY16-21)



Source: Company, Emkay Research

Exhibit 48: Average CFO/EBITDA (FY16-21)

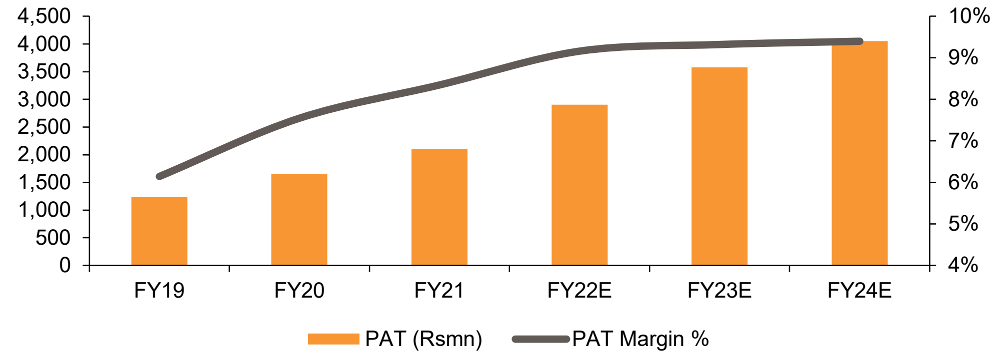


Source: Company, Emkay Research

Valuation and outlook

We estimate a 24% EPS CAGR over FY21-FY24, aided by order wins in both EPC and HAM as it can now bid for majority of the large road projects.

Exhibit 49: PAT growth of 24% over FY21-FY24e on back of stable EBITDA margin



Source: Company, Emkay Research

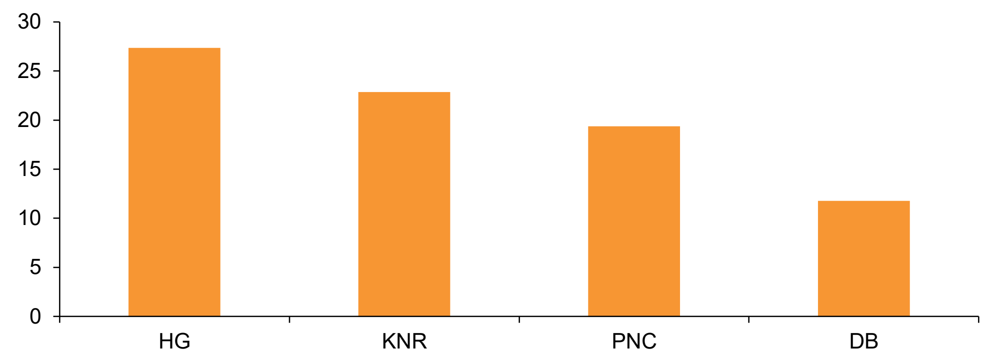
Exhibit 50: Peer comparison table

Particulars (Rsbn)	KNR Constructions		PNC Infratech		Dilip Buildcon		HG Infra. Engg	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Market cap	75.5	75.5	75.0	75.0	77.7	77.7	34.0	34.0
Less: Investment in Subs/JVs	4.9	4.9	14.2	14.2	10.4	10.4	2.6	2.6
Implied SA market cap	70.6	70.6	60.8	60.8	67.3	67.3	31.4	31.4
SA PAT	3.2	4.2	4.7	5.9	5.0	7.7	2.9	3.6
PE (x)	21.8	16.7	12.8	10.4	13.5	8.8	10.8	8.8
Average PE(x)							16.0	12.0

Source: Emkay research, Note: we have assumed 1x equity invested for Investment in Subs/JVs for all players; Average is for KNR, PNC and DBL, SA indicates Standalone

HG Infra has seen strong growth parameters while maintaining a superior ROE compared to its peers. The company's core EPC RoE for FY21 stood at 27.4% - higher than peers. While peers trade in the 9-17x PE range on FY23E basis (~12x average of KNR, PNC and DBL), we have assigned a 13x PE on better RoE.

Exhibit 51: Core EPC RoE (FY21) at ~27% - better than peers



Source: Company, Emkay Research

We initiate coverage on HG Infra with a TP of Rs800, valuing the EPC business at 13x Sept'23E EPS of Rs59 (implying value of Rs760/share). Investments in HAMs have been valued at 1x equity investment till FY21.

Exhibit 52: SoTP valuation (Sept'23E)

Particulars	Rs. (per share)
Standalone EPC business	
EPS - Sept'23	59
PE(x)	13
Rs/share	**760**
Investment in HAM 1x equity (Rsmn)	2,610
Rs/share	**40**
SoTP	**800**

Source: Company, Emkay Research

Key risks

Concentration risk: The company is currently highly dependent on orders from the road sector. Any slowdown in the ordering activity could have an adverse impact on the financials.

Relaxed barriers to bidding may intensify competition: Since the relaxation of bidding requirements by NHAI and MORTH for road projects in the last few months, the industry has seen the magnitude of bidding intensity rise multifold. This may make it more difficult for the company to win orders on healthy margins, which is one of the key factors that management will consider for its order book.

Working capital cycle risk: The delay in payments by authorities can lead to higher debtors, thus impacting the overall working capital cycle of the company, in turn subduing the cash generation. This could also impact the future execution of projects and investments.

Delayed execution in HAM projects: The delay in achieving financial closure/land acquisition of HAM projects may hamper company's ability to meet client engagements. Our present projections do not factor in any significant delays in land acquisition or financial closure of HAM projects that the company has won recently.

Diversification brings new set of risks: While the company has maintained strong margins presently, diversification can lead to dilution if the orders are taken aggressively. Also, given limited experience in new areas such as railways, airports etc., company may have to partner with other entities for technical project needs.

Commodity inflation may hamper healthy margin sustenance: Significant inflation in raw materials can negatively impact margins. As steel, cement are major raw materials in this space, significant volatility in their prices and any delay in managing inventory may lead to margin deterioration.

About the company and management

HG Infra Engineering is a Rajasthan-based infrastructure company with a predominant focus on roads and other segments such as flyovers and bridges. It undertakes a variety of business operations, including 1) providing EPC services on a fixed-sum turnkey basis and 2) undertaking civil construction and related infrastructure projects on the item rate, lump sum and developmental (HAM) basis. In addition to road related projects, the company has recently undertaken water pipeline projects and is actively participating in such bids in order to diversify itself in other infrastructure verticals, such as railways, water infra and airport runways.

Exhibit 53: Key milestones achieved by the company

FY03-08	▪ The company was incorporated in 2003 post conversion of partnership firm “M/s Hodal Singh Giriraj Singh & Company” ▪ Executed first subcontract for construction of embankment: Rs149mn ▪ Commenced construction of portion of Yamuna Expressway: Rs1.16bn
FY10-14	▪ Commenced work on four-laning of 49 km on Jaipur-Tonk-Deoli section on NH-12 from IRB Infra: Rs2.57bn ▪ Commenced work on four-laning of Warora - Bamni section in Maharashtra: Rs2.68bn ▪ Executed construction of two separate sections of Jaipur Naguar road: Rs1bn
FY15-16	▪ Four-laning of NH-65, on Kaithal- Rajasthan border from IRB Infra: Rs4.01bn ▪ Executed a Rs1.42bn order for second coat on Jaipur-Kishangarh project ▪ Conversion of company into public limited company ▪ Presence reached eight states; EPC pre-qualification above Rs20bn
FY17-18	▪ Awarded seven construction projects in Maharashtra by MoRTH: Rs19.05bn ▪ Won first HAM Project in Haryana : Rs6.06bn ▪ Raised Rs3bn from IPO in Feb’18; Listed on BSE and NSE
FY18-21	▪ Revenue reached Rs20bn+ with elevated operating margin of 15%+ ▪ Secured seven HAM projects (four in Haryana and three in Telangana)

Source: Company, Emkay Research

Management details

Mr. Harendra Singh (Chairman and Managing Director)

Mr. Harendra Singh has been on the Board of Company since its incorporation and was appointed as Managing Director in the board for a period of five years with effect from May 15, 2017. He holds a bachelor’s degree in Engineering (Civil) from Jodhpur University and has garnered more than 26 years of experience in the construction industry. For his outstanding achievement in business and social service, he was awarded twice by the Indian Achievers Forum.

Mr. Vijendra Singh (Whole Time Director)

Responsible for the overall functioning of the Company, Mr. Vijendra Singh has been on the Board of Company since its incorporation. After garnering a basic education, he amassed more than 28 years of experience in the construction industry. He was appointed as a Whole Time Director on Board for a period of five years with effect from May 15, 2017

Mr. Rajeev Mishra (CFO)

He holds a diploma in human resource development from the National Institute of Industrial Research and Development, Chennai and a master’s degree in business administration (Marketing and Finance) from Institute of Rural Management, Jaipur. He has been associated with our Company since July 11, 2015. He has over 10 years of experience in the field of banking and real estate industry.

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	**21,961**	**25,275**	**31,679**	**38,402**	**43,138**
Expenditure	**18,538**	**21,168**	**26,490**	**32,208**	**36,202**
EBITDA	**3,424**	**4,107**	**5,189**	**6,194**	**6,936**
Depreciation	756	844	894	988	1,070
EBIT	**2,668**	**3,262**	**4,294**	**5,206**	**5,866**
Other Income	137	154	120	140	160
Interest expenses	524	596	545	574	620
PBT	**2,281**	**2,821**	**3,870**	**4,773**	**5,406**
Tax	623	712	967	1,193	1,352
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	**1,657**	**2,110**	**2,902**	**3,579**	**4,055**
Adjusted PAT	**1,657**	**2,110**	**2,902**	**3,579**	**4,055**

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	652	652	652	652	652
Reserves & surplus	7,564	9,670	12,573	16,152	20,207
Net worth	**8,216**	**10,322**	**13,224**	**16,804**	**20,858**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Loan Funds	**3,675**	**2,267**	**2,377**	**2,577**	**2,877**
Net deferred tax liability	(87)	(94)	(94)	(94)	(94)
Total Liabilities	**11,804**	**12,494**	**15,507**	**19,286**	**23,641**
Net block	**4,824**	**4,831**	**4,637**	**4,649**	**4,079**
Investment	**1,813**	**3,797**	**4,693**	**6,475**	**7,957**
Current Assets	**13,849**	**13,066**	**17,184**	**20,557**	**24,980**
Cash & bank balance	240	1,399	2,191	2,979	5,522
Other Current Assets	4,008	3,154	3,311	3,477	3,651
Current liabilities & Provision	**8,794**	**9,218**	**11,025**	**12,413**	**13,392**
Net current assets	**5,056**	**3,848**	**6,159**	**8,144**	**11,588**
Misc. exp	0	0	0	0	0
Total Assets	**11,804**	**12,494**	**15,507**	**19,286**	**23,641**

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	**2,144**	**2,667**	**3,750**	**4,633**	**5,246**
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(329)	2,360	(1,519)	(1,198)	(901)
Operating Cashflow	**2,549**	**5,273**	**2,702**	**3,803**	**4,684**
Capital expenditure	(1,073)	(957)	(700)	(1,000)	(500)
Free Cash Flow	**1,476**	**4,316**	**2,002**	**2,803**	**4,184**
Investments	(642)	(1,984)	(897)	(1,782)	(1,482)
Other Investing Cash Flow	(42)	86	0	0	0
Investing Cashflow	**(1,620)**	**(2,701)**	**(1,477)**	**(2,642)**	**(1,822)**
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(129)	(1,408)	110	200	300
Dividend paid (incl tax)	(39)	0	0	0	0
Other Financing Cash Flow	(28)	591	1	0	0
Financing Cashflow	**(720)**	**(1,412)**	**(434)**	**(373)**	**(319)**
Net chg in cash	**209**	**1,160**	**792**	**788**	**2,543**
Opening cash position	31	240	1,399	2,191	2,979
Closing cash position	**240**	**1,400**	**2,191**	**2,979**	**5,522**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	15.6	16.2	16.4	16.1	16.1
EBIT Margin	12.1	12.9	13.6	13.6	13.6
Effective Tax Rate	27.3	25.2	25.0	25.0	25.0
Net Margin	7.5	8.3	9.2	9.3	9.4
ROCE	25.4	28.1	31.5	30.7	28.1
ROE	22.4	22.8	24.7	23.8	21.5
RoIC	28.5	38.6	54.1	56.5	58.8

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	25.4	32.4	44.5	54.9	62.2
CEPS	37.0	45.3	58.3	70.1	78.6
BVPS	126.1	158.4	202.9	257.8	320.1
DPS	0.6	0.0	0.0	0.0	0.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	21.3	16.8	12.2	9.9	8.7
P/CEPS	14.6	12.0	9.3	7.7	6.9
P/BV	4.3	3.4	2.7	2.1	1.7
EV / Sales	1.7	1.4	1.1	0.9	0.7
EV / EBITDA	11.1	8.5	6.6	5.5	4.5
Dividend Yield (%)	0.1	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	0.3	0.0	(0.1)	(0.1)	(0.2)
Net Debt/EBIDTA	0.7	(0.1)	(0.2)	(0.3)	(0.6)
Working Cap Cycle (days)	80.0	35.4	45.7	49.1	51.3

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	9.3	15.1	25.3	21.2	12.3
EBITDA	12.9	19.9	26.3	19.4	12.0
EBIT	17.1	22.3	31.6	21.2	12.7
PAT	34.2	27.3	37.6	23.3	13.3

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue	2,979	4,674	7,343	10,278	9,117
EBITDA	491	769	1,181	1,665	1,485
EBITDA Margin (%)	**16.5**	**16.5**	**16.1**	**16.2**	**16.3**
PAT	151	327	655	977	889
EPS (Rs)	**2.3**	**5.0**	**10.1**	**15.0**	**13.6**

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	74.0	74.0	74.0	74.5	74.5
FIIs	0.4	0.5	0.4	0.1	0.5
DIIs	20.6	19.6	19.1	18.2	16.5
Public and Others	4.9	5.9	6.4	7.2	8.5

Source: Capitaline

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 13 Aug 2021 12:24:54 (SGT)
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Sources for all charts and tables are Emkay Research unless otherwise specified.

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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