

HG Infra Engineering

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Consistent execution builds a favorable outlook

- Our recent interaction with HG Infra's management has quite positively refined our outlook on the business, built upon strong execution in H1FY22 (sales/EBITDA growth of ~29/33% 2-year CAGR) and an order backlog of Rs90.7bn (~2.7x OB/sales TTM), as of Nov'21.
- Management, led by healthy delivery, recently upgraded its outlook for sales/EBITDA to ~Rs34/5.5bn in FY22 and further order inflows of ~Rs22bn in H2 (vs. Rs38bn reported in H1). In addition, it sees a 20%+ sales CAGR for the next two years as quite achievable.
- The company has bid for a total project value of Rs228bn (HAM/EPC), of which Railways/Water Supply account for ~18/13%. The HAM monetization announcement is likely in the next 5-6 months, as the company is in discussions with various funds.
- The impressive performance in the last few quarters has led to ~20% upgrade in FY22/23E EPS by the Street in the last six months, bringing consensus forecasts in line with our optimism. We reiterate Buy and roll forward to Dec'22 to arrive at our revised SOTP-based TP of Rs820 (Rs800 earlier).

Execution pace healthy: HG Infra delivered revenue/EBITDA growth of 29/33% on a 2-year CAGR basis, helped by favorable momentum in execution and a healthy order backlog. As of Nov'21, OB stood at Rs90.7bn (all-time peak), with OB/Sales ~2.7x on a TTM basis, providing fair visibility in the medium term. Currently, the company has bid for total projects worth Rs228bn (HAM/EPC). It intends to diversify into non-road segments, such as Railways/Water Supply, and is targeting 10% of the order inflows to come from these segments.

Order wins in H2 to support growth momentum; HAM monetization is on the cards: The company has guided for further order inflows of ~Rs22bn in H2, led by high awarding activity by the NHA, as well as incremental inflows in new business areas, such as Railways/Water Supply, for which the bidding has been undertaken through JV partners. These non-road projects are spread across Gujarat, Rajasthan and Madhya Pradesh, and carry a similar operating margin profile as the current business segment. The invested equity in HAM projects is ~Rs2.8bn, and these specific projects are expected to garner similar proceeds on monetization as well, while total incremental equity requirement in all HAM projects is Rs9.2bn, till mid-FY25.

Reiterate Buy: Robust awarding activity in the road space, superior order winning ability, cost-cutting digital initiatives, long-term diversification efforts and margin stability despite inflation support our positive outlook on the company. We estimate a 16% EPS CAGR for FY22-24, in line with consensus expectations. We maintain Buy with a revised Dec'22 TP of Rs820. We assign a 13x multiple on the standalone business (unchanged) and value HAM investments at Rs42/share. At CMP, standalone EPC business is valued at ~10x Dec'23 EPS. Key risks include significant slowdown in awarding activity across road/non-road segments, margin impact from commodity inflation in H2 and HAM monetization at sub-optimal valuations.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	21,961	25,275	32,515	38,691	43,183
EBITDA	3,424	4,107	5,325	6,240	6,943
EBITDA Margin (%)	15.6	16.2	16.4	16.1	16.1
APAT	1,657	2,110	2,993	3,590	3,994
EPS (Rs)	25.4	32.4	45.9	55.1	61.3
EPS (% chg)	34.2	27.3	41.9	20.0	11.3
ROE (%)	22.4	22.8	25.3	23.8	21.1
P/E (x)	24.5	19.3	13.6	11.3	10.2
EV/EBITDA (x)	12.6	9.8	7.5	6.3	5.5
P/BV (x)	4.9	3.9	3.1	2.4	1.9

CMP	Target Price
Rs 624 as of (December 2, 2021)	Rs 820 (▲) 12 months
Rating	Upside
BUY (■)	31.5 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	3.1/ 0.3
Target Price change (%)	2.5
Target Period (Months)	12
Previous Reco	Buy

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	45.9	55.1
Consensus	45.7	53.7
Mean Consensus TP (12M)	Rs 903	

Stock Details

Bloomberg Code	HGINFRA IN
Face Value (Rs)	10
Shares outstanding (mn)	65
52 Week H/L	831 / 199
M Cap (Rs bn/USD bn)	41 / 0.54
Daily Avg Volume (nos.)	2,06,008
Daily Avg Turnover (US\$ mn)	1.9

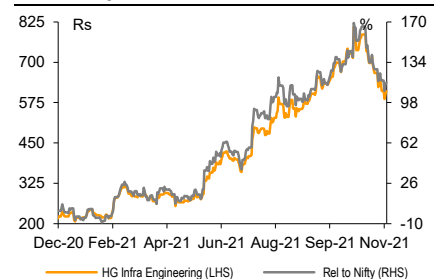
Shareholding Pattern Sep '21

Promoters	74.5%
FIIIs	2.2%
DIIIs	14.6%
Public and Others	8.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(19)	8	56	193
Rel. to Nifty (17)		7	40	121

Relative price chart



Source: Bloomberg

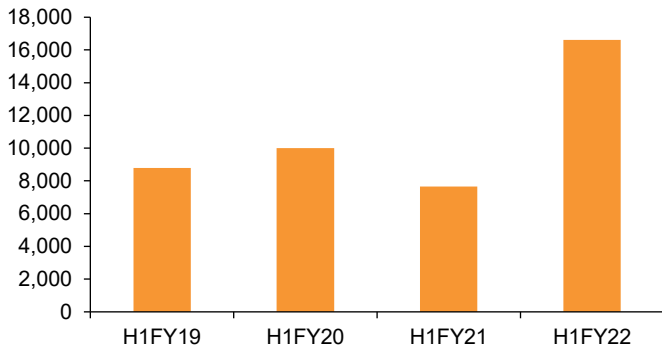
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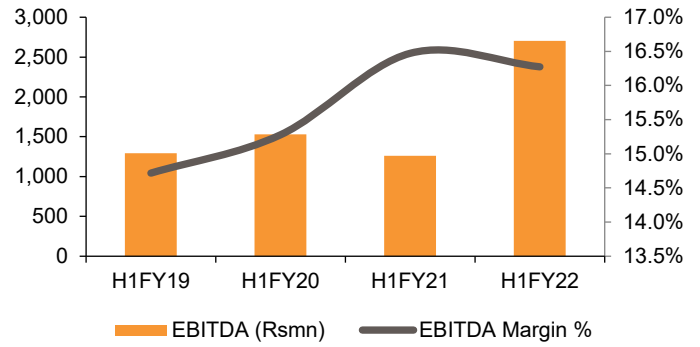
Story in Charts

Exhibit 1: Revenue grew at 29% on 2-year CAGR basis



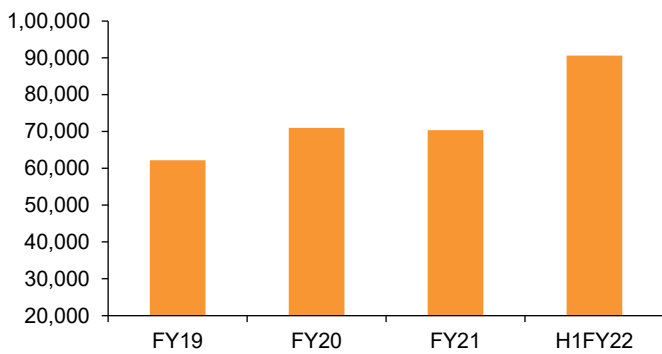
Source: Company, Emkay Research

Exhibit 2: ...while EBITDA grew 33% during same period



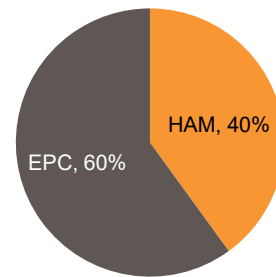
Source: Company, Emkay Research

Exhibit 3: Order book at peak (Rs mn)



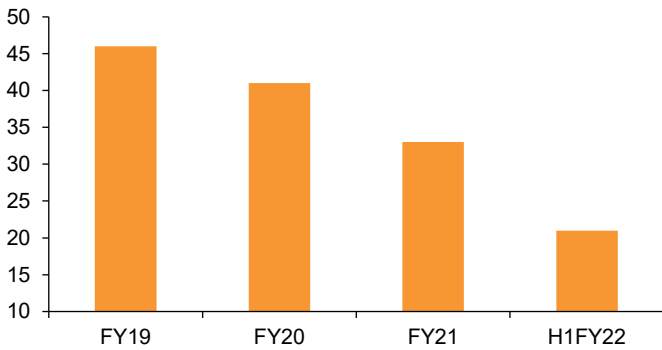
Source: Company, Emkay Research

Exhibit 4: Order book split across project type



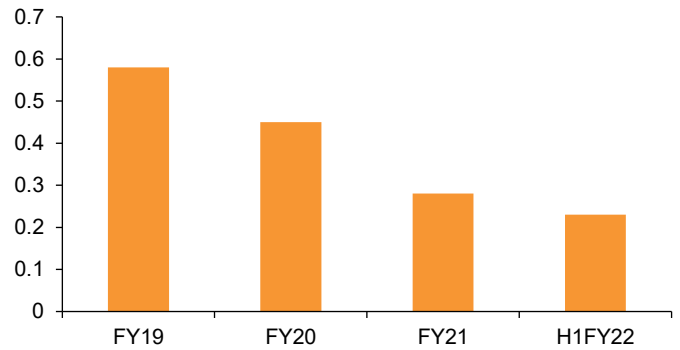
Source: Company, Emkay Research

Exhibit 5: Net working capital days have been optimized



Source: Company, Emkay Research

Exhibit 6: Debt/equity stood at 0.23x as of Sept'21



Source: Company, Emkay Research

Exhibit 7: Current breakdown of order backlog

Project	Awarding Authority	Project Status	Completion Progress as on 30 th Sept'21	Unexecuted Value (Rs Mn)
Karala-Kanjhawala UER	NHAI	Under Execution	~1%	12,417
Delhi Vadodara Pkg-9	NHAI	Under Execution	32%	7,972
Mancherial - Repallewa	Adani	Under Execution	35%	6,105
Delhi Vadodara Pkg-8	NHAI	Under Execution	42%	4,779
Hapur Morradabad	IRB - MRM	Under Execution	51%	4,272
Rewari Bypass Pkg-4	NHAI	Under Execution	25%	2,657
MoRTH Projects (MH)	MoRTH	Under Execution	90%	1,632
Rewari Ateli Mandi	NHAI	Under Execution	80%	1,303
Narnaul Bypass	NHAI	Under Execution	85%	1,158
Delhi Vadodara Pkg-4	NHAI	Under Execution	88%	1,109
Rajasthan Project (World Bank funded)	PWD	Under Execution	85%	889
Gurgaon-Sohna (Rajiv chowk)	NHAI	Under Execution	91%	343
Beawar Masuda	PWD	Newly Awarded	A.D Awaited	3,809
Raipur-Visakhapatnam AP-1	NHAI	Newly Awarded	A.D Awaited	7,672
Khammam-Devarapalle Pkg-1	NHAI	Newly Awarded	A.D Awaited	5,881
Khammam-Devarapalle Pkg-2	NHAI	Newly Awarded	A.D Awaited	4,857
Others		Under Execution		1,576
Total				68,431 (30th Sept'21)
Raipur-Visakhapatnam OD-5	NHAI	Newly Awarded – Oct '21	A.D Awaited	12,683
Raipur-Visakhapatnam OD-6	NHAI	Newly Awarded – Oct '21	A.D Awaited	9,546
Grand Total				90,660 (as on date)

Source: Company, Bloomberg

Exhibit 8: Expanding portfolio of HAM projects (as of Sept'21)

Project	Awarding authority	State	Kms Lanes	BPC (Rs mn)	Grant Amout (Rs mn)	Total Debt (Rs mn)	Invested Equity (Rs mn)	Debt as on 30th Sept '21 (Rs mn)	% completed as of Mar'21
Gurgaon-Sohna (Rajiv Chowk)	NHAI	Haryana	12.7	6,060	2,424	2,879	656	2,110.00	91%
Rewari Ateli Mandi	NHAI	Haryana	30.4	5,800	2,320	2,270	571	1458	80%
Narnaul Bypass	NHAI	Haryana	40.8	9,521	3,808	4,060	1116	2,620.00	85%
Rewari Bypass Pkg-4	NHAI	Haryana	14.4	5,220	2,088	2,200	414	300	25%
Khammam Devarapalle Pkg-1*	NHAI	Telangana	33.6	7,721	3,088	3,100	-	-	-
Khammam Devarapalle Pkg-2*	NHAI	Telangana	29.5	6,371	2,548	2,560	-	-	-
Raipur Visakhapatnam*	NHAI	AP	31.8	10,601	4,240	4,520	-	-	-
Raipur Visakhapatnam OD-5	NHAI	Odisha	44	14,921	5,968	7,350	-	-	-
Raipur Visakhapatnam OD-6	NHAI	Odisha	45.5	11,231	4,492	5,550	-	-	-

Source: Company, Emkay Research

Exhibit 9: Status of new projects

Project	State	Project type	BPC(Rs mn)	LOA Received	Agreement signed	Status of Land	Appointed Date
Karala-Kanjhawala UER	Delhi	EPC	13,931	23-07-2021	08-09-2021	95% Available	28-10-2021
Raipur Visakhapatnam AP-1	AP	HAM	10,601	30-07-2021	14-09-2021	70% Available	After FC(within 150 days of signing of agreement)
Khammam Devarapalle Pkg-1	Telangana	HAM	7,721	15-09-2021	To be signed	15% Available	
Khammam Devarapalle Pkg-2	Telangana	HAM	6,371	15-09-2021	To be signed	30% Available	
Raipur Visakhapatnam OD-5	Odisha	HAM	14,921	25-10-2021	To be signed	Newly awarded	
Raipur Visakhapatnam OD-6	Odisha	HAM	11,231	25-10-2021	To be signed	Newly awarded	

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Rs mn	FY22E			FY23E			FY24E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	31,679	32,515	2.6%	38,402	38,691	0.8%	43,138	43,183	0.1%
EBITDA	5,189	5,325	2.6%	6,194	6,240	0.8%	6,936	6,943	0.1%
EBITDA Margin %	16.4	16.4	0 bps	16.1	16.1	0 bps	16.1	16.1	0 bps
PAT	2,902	2,993	3.1%	3,579	3,590	0.3%	4,055	3,994	-1.5%

Source: Company, Emkay Research

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Exhibit 11: SoTP valuation – Dec'22**Valuation - SoTP**

Standalone EPC business	
EPS - Dec'23	60
PE(x)	13
Rs/share	778
Investment in HAM 1x equity	2,757
Rs/share	42
SoTP	820

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	21,961	25,275	32,515	38,691	43,183
Expenditure	18,538	21,168	27,189	32,451	36,240
EBITDA	3,424	4,107	5,325	6,240	6,943
Depreciation	756	844	911	1,021	1,158
EBIT	2,668	3,262	4,415	5,220	5,785
Other Income	137	154	120	140	160
Interest expenses	524	596	545	574	620
PBT	2,281	2,821	3,990	4,786	5,325
Tax	623	712	998	1,197	1,331
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,657	2,110	2,993	3,590	3,994
Adjusted PAT	1,657	2,110	2,993	3,590	3,994

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	12,663	16,253	20,247
Net worth	8,216	10,322	13,315	16,904	20,898
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	15,597	19,387	23,681
Net block	4,824	4,831	4,920	4,899	5,241
Investment	1,813	3,797	4,693	6,475	7,957
Current Assets	13,849	13,066	17,145	20,461	23,866
Cash & bank balance	240	1,399	1,852	2,779	4,391
Other Current Assets	4,008	3,154	3,311	3,477	3,651
Current liabilities & Provision	8,794	9,218	11,180	12,466	13,401
Net current assets	5,056	3,848	5,966	7,995	10,465
Misc. exp	0	0	0	0	0
Total Assets	11,804	12,494	15,597	19,387	23,681

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	2,144	2,667	3,870	4,646	5,165
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(329)	2,360	(1,665)	(1,102)	(858)
Operating Cashflow	2,549	5,273	2,663	3,942	4,754
Capital expenditure	(1,073)	(957)	(1,000)	(1,000)	(1,500)
Free Cash Flow	1,476	4,316	1,663	2,942	3,254
Investments	(642)	(1,984)	(897)	(1,782)	(1,482)
Other Investing Cash Flow	(42)	86	0	0	0
Investing Cashflow	(1,620)	(2,701)	(1,777)	(2,642)	(2,822)
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	452	927	1,613
Opening cash position	31	240	1,399	1,852	2,779
Closing cash position	240	1,400	1,852	2,779	4,392

Source: Company, Emkay Research

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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	13.5	13.4
Effective Tax Rate	27.3	25.2	25.0	25.0	25.0
Net Margin	7.5	8.3	9.2	9.3	9.2
ROCE	25.4	28.1	32.3	30.6	27.6
ROE	22.4	22.8	25.3	23.8	21.1
RoIC	28.5	38.6	54.1	54.5	54.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	25.4	32.4	45.9	55.1	61.3
CEPS	37.0	45.3	59.9	70.7	79.1
BVPS	126.1	158.4	204.3	259.4	320.7
DPS	0.6	0.0	0.0	0.0	0.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	24.5	19.3	13.6	11.3	10.2
P/CEPS	19.8	16.2	12.3	10.4	9.3
P/BV	4.9	3.9	3.1	2.4	1.9
EV / Sales	2.0	1.6	1.2	1.0	0.9
EV / EBITDA	12.6	9.8	7.5	6.3	5.5
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	0.0	(0.1)	(0.1)
Net Debt/EBIDTA	0.7	(0.1)	(0.1)	(0.2)	(0.4)
Working Cap Cycle (days)	80.0	35.4	46.2	49.2	51.3

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	9.3	15.1	28.6	19.0	11.6
EBITDA	12.9	19.9	29.7	17.2	11.3
EBIT	17.1	22.3	35.3	18.2	10.8
PAT	34.2	27.3	41.9	20.0	11.3

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue	4,674	7,343	10,278	9,117	7,496
EBITDA	769	1,181	1,665	1,485	1,218
EBITDA Margin (%)	16.5	16.1	16.2	16.3	16.3
PAT	327	655	977	889	698
EPS (Rs)	5.0	10.1	15.0	13.6	10.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	74.0	74.0	74.5	74.5	74.5
FIs	0.5	0.4	0.1	0.5	2.2
DIs	19.6	19.1	18.2	18.0	14.6
Public and Others	5.9	6.4	7.2	7.0	8.7

Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Aug-21	531	800	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

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: 02 Dec 2021 23:57:48 (SGT)

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