

## Decent show; healthy outlook ahead...

**About the stock:** HG Infra Engineering is a Jaipur (Rajasthan) based infrastructure company with primary focus on roads and allied sectors. Additionally, the company is actively looking to diversify itself by targeting the railways, airport and water infra segments.

- Reported 27.9% revenue CAGR during FY17-22; operating margin improved from 14.9% in FY17 to 16.2% in FY22
- Prudent management, lean balance sheet position, superior return ratios

### Q4FY22 Results: HG Infra reported a decent set of numbers during Q4FY22.

- Standalone revenue declined merely by 0.2% YoY to ₹ 1,025.9 crore (on higher base), backed by its strong executable order book position, pick-up in execution, and receipt of appointed date in most of its projects
- EBITDA was at ₹ 156.8 crore, down 7.4% YoY, with margin at 15.3%
- PAT was at ₹ 91.1 crore (down 6.7% YoY)

**What should investors do?** HG Infra's share price has grown ~2x over the past four years (from ~₹ 267 in March 2018 to ₹ 524 levels in May 2022).

- We maintain **BUY** rating on the company

**Target Price and Valuation:** We value HG Infra at a target price of ₹ 735

### Key triggers for future price performance:

- HG is likely to be one of the major recipients of thriving roads, railways and water supply segments. Healthy order inflows to aid its order book position
- Strong order book position, receipt of appointed date in most of its projects and execution pick-up to translate into 18.4% topline CAGR over FY22-24E
- Current order mix with built-in raw material price variation clauses in most of its contracts provides margin sustainability at ~15.5%
- Double-digit return ratios and lean balance sheet position

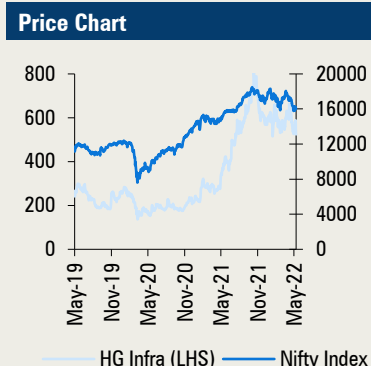
**Alternate Stock Idea:** Besides HG Infra, we like PNC Infratech in the infra space.

- Play on strong execution and lean balance sheet
- BUY with a target price of ₹ 390/share



Particulars	Amount
Market Capitalization	3,416.6
Total Debt (₹ crore)	410.6
Cash (₹ crore)	158.5
EV (₹ crore)	3,668.7
52 week H/L (₹)	830 / 358
Equity capital	65.2
Face value	10.0

Shareholding pattern	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	74.5	74.5	74.5	74.5
DII	14.9	13.1	12.3	12.5
FII	0.5	2.2	1.3	0.7
Other	10.1	10.3	11.9	12.3



### Key Risks

**Key Risk:** (i) Weaker-than-expected execution; (ii) low order inflows

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY21-24E)
Net Sales	2,009.8	2,196.1	2,535.0	3,615.2	27.9%	4,387.0	5,066.5	18.4%
EBITDA	303.2	342.4	418.1	584.8	36.3%	680.2	783.9	15.8%
EBITDA Margin (%)	15.1	15.6	16.5	16.2		15.5	15.5	
Net Profit	123.6	165.7	211.0	338.8	44.7%	395.2	442.5	14.3%
EPS (₹)	19.0	25.4	32.4	52.0		60.6	67.9	
P/E (x)	27.6	20.6	16.2	10.1		8.6	7.7	
EV/EBITDA (x)	12.2	10.8	8.3	6.3		5.6	4.8	
RoCE (%)	22.7	23.2	25.9	28.7		25.8	24.6	
RoE (%)	18.7	20.2	20.4	24.8		22.5	20.2	

## Key business highlight and outlook

### Inflows guidance at ₹ 10,000 crore; execution to remain strong

HG Infra's order book as on March 31, 2022 was at ₹ 7,972.9 crore (~2.2x book to TTM revenues), aided by healthy ₹ 4,328 crore worth of projects secured during FY22 despite higher competition. **Going forward, the company has guided for overall order inflows of ~₹ 10,000 crore during FY23**, to be driven by a strong order pipeline in roads segment and growing opportunities in the other infrastructure verticals such as railways, and water supply. On the execution front, the improved momentum is likely to continue with a) its healthy order book position, b) receipt of appointed date in most of its projects and c) pick-up in execution. With these, **the management has guided for ~₹ 5,000 crore of topline in FY23E (vs ₹ 3,615 crore posted in FY22)**. Also, indicated that **operating margin to sustain at 15.5-16%, going ahead, with better product mix**.

### Lean balance sheet despite equity commitments

HG Infra's balance sheet has remained lean backed by its prudent strategy to mainly focus on an asset light business model and efficient manage working capital. At the end of Q4FY22, its gross debt, cash and cash equivalent at the standalone level was at ₹ 314.7 crore, ₹ 158.5 crore, respectively. **Going forward, it has total equity requirement of ₹ 1,137 crore (₹ 354 crore already invested till FY22; ₹ 459 crore, ₹ 208 crore, ₹ 116 crore to be spent in FY23, FY24, FY25, respectively) towards already secured HAM projects**. Despite these, **we expect its debt to remain at comfortable levels with healthy operating cash flow generation arising from improved profitability and, better cash flow management**. Also, monetisation of HAM assets would increase its ability to bag newer projects.

### Key conference call takeaways

- MoRTH has constructed 10,457 km during FY22 (vs 13,247 km in FY21) impacted by several waves of Covid-19 and prolonged monsoon season. However, awarding has improved to 12,731 km during FY22 (vs. 10,947 km in FY21). **Going forward, the ministry's target to construct 25,000 km of national highways in FY23 provides good visibility. The management expects tendering activity to pick-up considerably, going forward**
- HG Infra has **guided for ~₹ 5,000 crore of revenue during FY23 largely to be contributed by pick-up in execution from under-execution projects including three packages of Raipur-Visakhapatnam (₹ 3,200 crore), Appointed date (AD) pending/newer projects (₹ 1,200 crore) and Ganga Expressway (₹ 800 crore)**
- The company has faced several headwinds during FY22, which includes rising prices of key raw material and various input cost, several wave of Covid-19 disrupting operations, higher crude prices and prolonged monsoon season. However, its strategy towards selective bidding and growing operational efficiencies has enabled the company to protect overall margin profile during FY22 (at >16%). **Going forward, as per management, its operating margin is likely to remain at an elevated 15.5-16% with diversified project mix**
- Order inflows during FY22 were at ₹ 4,328 crore, lower than the guided level of ~₹ 6,000 crore given the increasing competition in EPC and HAM projects from unorganised players. **Going forward, the company has guided for ₹ 9,000–10,000 crore of order inflows during FY23 largely targeting from HAM - roads (₹ 3,500 crore), EPC - roads (₹ 5,500 crore) and non-road (₹ 1,000 crore) segments. The management expects competitive intensity to decline ahead**
- HG Infra has received "notice to proceed" from Adani Group for sub-contracting jobs on Ganga Expressway projects for which the company expects AD by August 2022. The order size is at ₹ 4,000+ crore (151 km) to be completed in 27 months. Margin expectation is at ~15%
- HG Infra has achieved PCoD for three HAM projects viz. b) Gurgaon-Sohna, b) Rewari Ateli Mandi (by completing 170 days ahead of scheduled date) and c) Narnaul Bypass (by completing 255 days ahead of scheduled date). **The company is eligible for early completion bonus in two projects (amounting to ~₹ 24 crore) and expects receipt during H1FY23**

- In the newly won HAM projects i.e. Raipur Visakhapatnam AP-1, the company has received receipt of appointed date during March 2022. Also, for recently won Raipur Visakhapatnam OD (Package 5 and 6) projects, 90% land is available and the company expects receipt of appointed date by June 2022. However, the appointed date is likely to get delayed to September 2022 for Khammam Devarapalle Package -1 and 2 with some land availability issues
- Among major EPC projects, HG infra has completed a) 99% physical execution in Delhi Vadodara Package-4 (applied for PCoD), b) 75% in Delhi Vadodara Package-8, c) 59% in Delhi Vadodara Package-9, and d) 78% in Hapur Moradabad (likely to get completed by H1FY23)
- The execution in Karala-Kanjhawala UER EPC project has commenced with receipt of appointed date with effect from October 28, 2021. However, the implementation got impacted during initial phase due to imposition of ban on construction activities in Delhi-NCR region and adverse weather affecting operational efficiencies. With the lifting of the ban, the project is making good progress and it is now 4% complete by March 2022-end. In the Neelmangala-Tumkur EPC project, the company expects appointed date during Q2FY23
- HG Infra was on hold mode regarding monetisation of its HAM assets till now having primary focus on timely completion and some concerns on valuation. Nevertheless, **the company is re-initiating talks with various potential investors and expects positive outcome by FY23-end**
- HG Infra has incurred ~₹ 75 crore towards capex during FY22. Going forward, **the management has guided for ~₹ 110 crore of capex during FY23 required to be spent for newer projects and jobs in newer targeting segments**

Considering its healthy executable order book position and robust execution skill, we expect execution momentum to continue in the near-to-medium term. Additionally, elevated operating margins, strong return ratios and lean balance sheet position remains key positive. We maintain BUY rating with a target price of ₹ 735/share (based on SoTP based valuation). We value the core business at 10x FY24 P/E (vs. 14x, earlier amid increasing interest rate scenario) and HAM projects at 1x equity invested.

## Peer Comparison

HG Infra has a strong footprint in the western region of Rajasthan and Haryana. However, it has successfully diversified itself geographically by bagging orders in the southern region backed by its scaled-up pre-qualification and robust implementation capabilities. Efficient business model with emphasis on higher in-house execution, ability to deliver projects on-time and elevated margins differentiates it among peers.

**Exhibit 1: Variance Analysis**

Particulars	Q4 FY22	Q4 FY22E	Q4 FY21	Q3 FY22	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,025.9	950.0	1,030.8	922.4	-0.5	11.2	Revenue were tad better backed by healthy OB position and
Other Income	2.7	6.1	4.8	2.1	-44.5	26.1	
Consumption of raw materials	827.0	754.3	821.7	729.5	0.6	13.4	
Employee benefit expenses	33.5	38.0	29.6	32.3	13.0	3.5	
Other Expenses	8.6	11.4	10.0	8.6	-13.8	1.0	
EBITDA	156.8	146.3	169.4	152.1	-7.4	3.1	
EBITDA Margin (%)	15.3	15.4	16.4	16.5	-115 bps	-120 bps	
Depreciation	-21.8	-24.5	-22.6	-21.6	-3.2	0.9	
Interest	-16.0	-13.0	-19.2	-12.5	-17.0	28.1	
PBT	121.6	114.9	132.4	120.1	-8.1	1.3	
Taxes	-30.5	-28.9	-34.8	-31.2	-12.1	-2.1	
PAT	91.1	85.9	97.7	88.9	-6.7	2.5	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22		FY23E			FY24E			Comments
	Old	New	Old	New	% Change	Old	New	% Change	
Revenue	3,615.2	3,900.7	4,387.0		12.5	4,359.7	5,066.5	16.2	Reliagn estimates post Q4
EBITDA	584.8	620.4	680.2		9.6	683.9	783.9	14.6	
EBITDA Margin (%)	16.2	15.9	15.5		-40 bps	15.7	15.5	-22 bps	
PAT	338.8	366.9	395.2		7.7	395.2	442.5	12.0	
Diluted EPS (₹)	52.0	56.3	60.6		7.7	60.6	67.9	12.0	

Source: Company, ICICI Direct Research

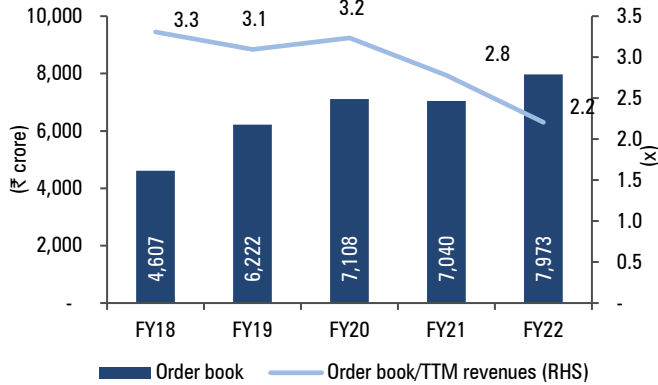
**Exhibit 3: Valuation Table**

Particular	Valuation method	₹ /share
Standalone EPC business	10x FY24E EPS	679
HAM Projects	1x P/B	54
<b>Total (Rounded off)</b>		<b>735</b>
CMP		524
Potential upside (%)		40%

Source: Company, ICICI Direct Research

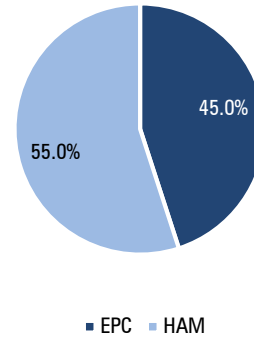
## Company Analysis

Exhibit 4: Order book trend\*



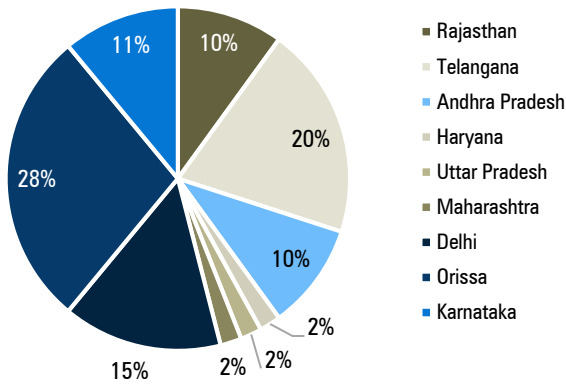
Source: Company, ICICI Direct Research

Exhibit 5: Order book composition



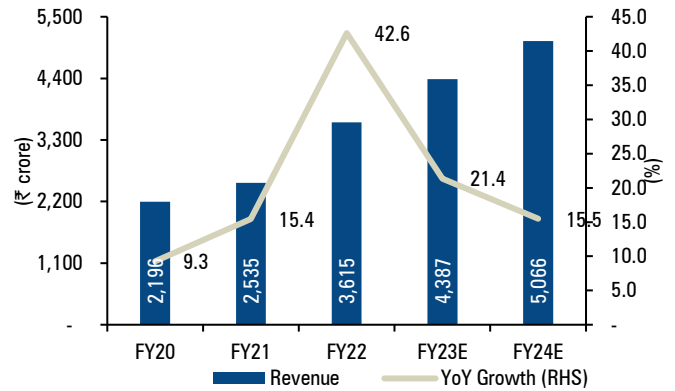
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



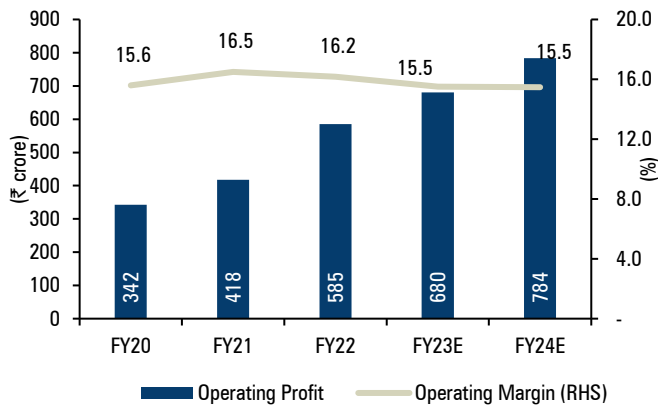
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



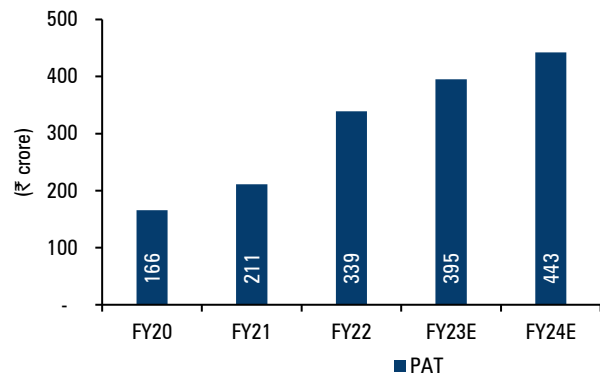
Source: Company, ICICI Direct Research

Exhibit 8: Annual EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 9: Annual PAT trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>2,535.0</b>	<b>3,615.2</b>	<b>4,387.0</b>	<b>5,066.5</b>
Growth (%)	15.4	42.6	21.4	15.5
Raw Material Cost	1,980.8	2,868.2	3,509.6	4,053.2
Employee Cost	109.3	127.9	157.4	183.9
Other Expenditure	26.7	34.3	39.8	45.5
Total Operating Expenditure	2,116.8	3,030.4	3,706.9	4,282.6
<b>EBITDA</b>	<b>418.1</b>	<b>584.8</b>	<b>680.2</b>	<b>783.9</b>
Growth (%)	22.1	39.9	16.3	15.2
Other income	8.0	7.8	9.0	9.7
Depreciation	84.4	85.1	92.9	103.1
EBIT	341.7	507.5	596.3	690.5
Interest	59.6	52.8	68.0	98.9
PBT	282.1	454.7	528.3	591.6
Tax	71.2	115.9	133.1	149.1
<b>Rep. PAT</b>	<b>211.0</b>	<b>338.8</b>	<b>395.2</b>	<b>442.5</b>
Exceptional items				
<b>Adj. Net Profit</b>	<b>211.0</b>	<b>338.8</b>	<b>395.2</b>	<b>442.5</b>
Growth (%)	27.3	60.6	16.6	12.0
<b>EPS (₹)</b>	<b>32.4</b>	<b>52.0</b>	<b>60.6</b>	<b>67.9</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	967.0	1,299.2	1,688.0	2,122.3
Networth	1,032.2	1,364.3	1,753.1	2,187.5
Loan Funds	294.0	410.6	562.2	625.0
Deferred Tax liability	(9.5)	(11.4)	(11.4)	(11.4)
Other financial liabilities	2.6	6.0	7.2	8.2
<b>Total Liabilities</b>	<b>1,319.3</b>	<b>1,769.5</b>	<b>2,311.1</b>	<b>2,809.4</b>
<b>Assets</b>				
Net Block	483.0	459.0	476.1	472.9
Capital WIP	1.8	2.2	2.2	2.2
Non-current Investments	261.2	354.5	813.5	1,021.5
Other non-current assets	16.8	31.7	38.5	44.4
Loans	-	-	-	-
Inventories	168.0	183.6	240.4	277.6
Trade Receivables	657.5	699.5	817.3	916.1
Cash & Bank Balances	258.4	158.5	159.7	258.7
Loans & Advances	5.0	23.3	23.3	23.3
Other current assets	319.3	456.7	467.9	619.1
Total current assets	1,408.2	1,521.5	1,708.6	2,094.8
Total Current liabilities	851.9	599.3	727.6	826.4
Net Current Assets	556.4	922.2	981.0	1,268.3
<b>Total Assets</b>	<b>1,319.3</b>	<b>1,769.5</b>	<b>2,311.1</b>	<b>2,809.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	211.0	338.8	395.2	442.5
Depreciation	84.4	85.1	92.9	103.1
Interest	59.6	52.8	68.0	98.9
Others	(8.8)	(9.6)	(9.0)	(9.7)
Cash Flow before wc changes	346.1	467.1	547.1	634.8
Net Increase in Current Assets	186.0	(213.2)	(185.8)	(287.2)
Net Increase in Current Liabilities	(11.1)	(249.2)	129.5	99.9
<b>Net CF from operating activities</b>	<b>521.0</b>	<b>4.7</b>	<b>490.8</b>	<b>447.4</b>
Net purchase of Fixed Assets	(75.7)	(61.4)	(110.0)	(100.0)
Others	(154.1)	(100.3)	(456.8)	(204.2)
<b>Net CF from Investing Activities</b>	<b>(229.7)</b>	<b>(161.7)</b>	<b>(566.8)</b>	<b>(304.2)</b>
Proceeds from share capital	2.9	(0.1)	0.1	(0.0)
Proceeds/Repayment from Loan	(87.3)	116.6	151.6	62.8
Interest paid	(59.6)	(52.8)	(68.0)	(98.9)
Others	(3.3)	(6.5)	(6.5)	(8.1)
<b>Net CF rom Financing Activities</b>	<b>(147.2)</b>	<b>57.1</b>	<b>77.2</b>	<b>(44.2)</b>
<b>Net Cash flow</b>	<b>144.1</b>	<b>(99.9)</b>	<b>1.2</b>	<b>99.0</b>
Opening Cash	114.4	258.4	158.5	159.7
<b>Closing Cash &amp; cash equivalents</b>	<b>258.5</b>	<b>158.5</b>	<b>159.7</b>	<b>258.7</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Reported EPS	32.4	52.0	60.6	67.9
Cash EPS	45.3	65.0	74.9	83.7
BV per share	158.4	209.3	269.0	335.7
Revenue per share	389.0	554.7	673.2	777.4
Cash Per Share	39.7	24.3	24.5	39.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	16.5	16.2	15.5	15.5
EBIT/ Net Sales	13.2	13.8	13.4	13.4
PAT Margin	8.3	9.4	9.0	8.7
Inventory days	24.2	18.5	20.0	20.0
Debtor days	94.7	70.6	68.0	66.0
Creditor days	71.8	44.0	44.0	43.0
<b>Return Ratios (%)</b>				
RoE	20.4	24.8	22.5	20.2
RoCE	25.9	28.7	25.8	24.6
RoIC	31.6	31.3	27.5	26.8
<b>Valuation Ratios (x)</b>				
P/E	16.2	10.1	8.6	7.7
EV / EBITDA	8.3	6.3	5.6	4.8
EV / Net Sales	1.4	1.0	0.9	0.7
Price to Book Value	3.3	2.5	1.9	1.6
<b>Solvency Ratios (x)</b>				
Debt / EBITDA	0.7	0.7	0.8	0.8
Net Debt / Equity	0.0	0.2	0.2	0.2

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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