

Strong execution; healthy growth outlook...

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 segment.

- Reported 28.8% revenue CAGR during FY16-21; operating margin improved consistently from 11.0% in FY16 to 16.2% in FY21
- Proficient management, net debt free, superior return ratio (RoCE/RoE: >20%)

Q2FY22 Results: HG Infra reported a strong set of numbers for Q2FY22.

- Standalone revenue improved 60.4% YoY to ₹ 749.6 crore, backed by its strong executable order book position, pick-up in execution post second-wave disruptions, and receipt of appointed date in most of its projects
- EBITDA was at ₹ 121.8 crore, up 58.3% YoY, with margin at 16.3%
- PAT was at ₹ 69.8 crore (up 113.8% YoY)

What should investors do? HG Infra's share price has grown 2.8x over the past three years (from ~₹ 267 in March 2018 to ₹ 740 levels in November 2021).

- We maintain BUY rating on the company

Target Price and Valuation: We value HG Infra at a target price of ₹ 885

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 24.3% topline CAGR over FY21-23E
- Current order mix with built-in raw material price variation clauses in most of its contracts provides margin sustainability at ~16%
- Double-digit return ratios and lean balance sheet position

Alternate Stock Idea: Besides HG Infra, we like NCC in the infra space.

- Play on execution pick-up and improving balance sheet
- BUY with a target price of ₹ 100/share



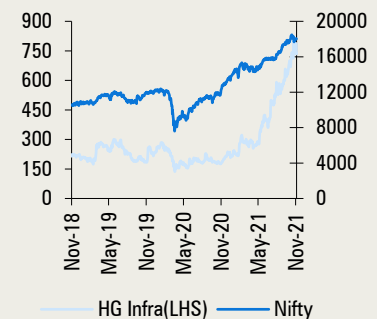
Particulars

Particular	Amount
Market Capitalization	4,824.9
Total Debt (₹ crore)	294.0
Cash (₹ crore)	258.4
EV (₹ crore)	4,860.5
52 week H/L (₹)	838 / 178
Equity capital	65.2
Face value	10.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	74.0	74.5	74.5	74.5
DII	18.1	16.7	14.9	13.1
FII	0.4	0.1	0.5	2.2
Other	7.4	8.7	10.1	10.3

Price Chart



Key Risks

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

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Lokesh Kashikar
lokesh.kashikar@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	2,009.8	2,196.1	2,527.5	28.8%	3,292.0	3,908.0	24.3%
EBITDA	303.2	342.4	410.7	39.4%	522.8	630.6	23.9%
Net Profit	123.6	165.7	211.0	143.2%	299.8	365.9	31.7%
EPS (₹)	19.0	25.4	32.4		46.0	56.1	
P/E (x)	39.0	29.1	22.9		16.1	13.2	
Price / Book (x)	7.3	5.9	4.7		3.6	2.9	
EV/EBITDA (x)	16.8	14.9	11.8		9.3	7.9	
RoCE (%)	22.7	23.2	25.9		27.7	26.8	
RoE (%)	18.7	20.2	20.4		22.6	21.7	

Key business highlight and outlook

Healthy order book position; execution pace to remain strong

HG Infra's order book as on September 30, 2021 was at ₹ 6,843 crore (~2x book to TTM revenues). Additionally, it has secured two consecutive packages of a road project located in Odisha state worth ₹ 2,223 crore (EPC value) on a HAM basis post Q2FY22, which has strengthened its order book further. Going forward, the management has guided for overall order inflows of ~₹ 6,000 crore during FY22 (already secured ₹ 3,846 crore worth of projects during H1FY22), 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) desired level of labour/raw material on-site. With these, the management has guided for ~₹ 3,400 crore of topline in FY22E. Also, operating margin is likely to sustain at >15.5%, going ahead.

Balance sheet to remain lean 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 Q2FY22, its gross debt/cash and cash equivalent at the standalone level was at ₹ 273.8 crore, ₹ 114.7 crore, respectively. Going forward, it has total equity requirement of ₹ 1,195 crore (₹ 276 crore already invested till H1FY22; ₹ 187 crore, ₹ 421 crore, ₹ 180 crore to be spent during H2FY22, FY23, and FY24 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

- NHA's tendering activities are likely to pick-up significantly during H2FY22 with the authority aiming to award ~ 4,200 km to reach initially targeted 6,000 km awarding. Additionally, the management expects competitive intensity to remain at an elevated level for EPC projects (with zero equity commitments) compared to HAM projects
- HG Infra has a strong bidding pipeline across its targeted sectors and has submitted its bids for the roads segment worth ₹ 22,800 crore. Also, in order to diversify itself, the company has submitted bids for railways projects aggregating to ₹ 4,200 crore, and water supply jobs totalling ₹ 3,000 crore (average ticket size: ₹ 400-500 crore). Overall, HG Infra is targeting ~10% of overall order inflows from non-roads segment during FY22. Also, share of non-road segments is expected to increase further to ~25% over next two to three years
- HG Infra is targeting ~20% revenue CAGR in FY22-24E, which is likely to be backed by a) healthy order book position, b) continued momentum in awarding by NHA and other developmental authorities, in-turn, strong inflows for HG Infra, and c) pick-up in execution under a normalised scenario. Margins are likely to hover in the range of 15-17% with a diversified project mix
- Among major EPC projects, HG infra has completed a) 88% physical execution in Delhi Vadodara package-4: likely to get completed by December 31, 2021, b) 42% in Delhi Vadodara package-8, c) 32% in Delhi Vadodara package-9, e) 51% in Hapur Morradabad (IRB) and f) 35% in Mancherial – Repallewa (Adani). In the recently secured Karala-Kanjhawala UER project, the company has received appointed date w.e.f. October 28, 2021. The management expects significant rump-up in execution over the next few months with 95% land availability
- Among major HAM projects, HG Infra has completed a) 91% physical execution in Gurgaon-Nuh (Rajiv Chowk), b) 80% in Rewari Ateli Mandi, c) 85% in Narnual Bypass, and d) 25% in Rewari Bypass package-4. In the newly won projects i.e. Khammam Devarapalle package -1 and 2 (~15-30% land available), and Raipur Visakhapatnam AP-1 (>70% land available), the company is in various stages of financial closure and expects receipt of appointed date by April 2021. Also,

for recently won Raipur Visakhapatnam OD package 5 and 6 HAM project, the company expects receipt of appointed date by June 2021

- Net working capital cycle has improved significant and was at 21 days at the end of Q2FY22 (vs. 33 days at FY21-end) with debtors at 49 days, inventory at 36 days and creditors at 64 days. The management expects debtor days to improve further with better collection from private clients
- HG Infra is in discussions with potential buyers regarding monetisation of its HAM assets (equity investment of ~ ₹ 280 crore in near-completion three projects). With ongoing dialogue, the management expects positive development over the next six months on the monetisation front
- The company has incurred ₹ 38 crore towards capex during H1FY22 and has guided for ₹ 75 crore during FY22E. Additionally, the management does not expect major increase in capex requirement during FY23, FY24 (to hover in the range of ₹ 75-80 crore on annual basis) despite targeting newer 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. Given the superlative execution, we raise our FY22, FY23 earnings estimates by 8.5%, 6.4%, respectively. We maintain BUY rating with a revised target price of ₹ 885/share (based on SoTP based valuation). We value core business at 15x FY23 P/E 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 from its peers.

Exhibit 1: Variance Analysis

Particulars	Q2 FY22	Q2 FY22E	Q2 FY21	Q1 FY22	YoY (%)	QoQ (%)	Comments
Total Operating Income	749.6	680.0	467.4	911.7	60.4	-17.8	Pick-up execution led to topline beat
Other Income	5.1	4.0	1.6	3.4	220.3	51.1	
Consumption of raw materials	588.1	532.0	359.6	723.7	63.5	-18.7	
Employee benefit expenses	31.1	32.0	25.9	31.0	20.2	0.3	
Other Expenses	8.7	7.0	5.0	8.5	72.6	1.4	
EBITDA	121.8	109.0	76.9	148.5	58.3	-18.0	
EBITDA Margin (%)	16.3	16.0	16.5	16.3	-21 bps	-4 bps	Better project mix supported margin performance
Depreciation	-21.3	-21.0	-20.8	-20.3	2.1	4.8	
Interest	-12.5	-14.0	-13.8	-11.9	-9.2	5.1	
PBT	93.2	78.0	43.9	119.7	112.1	-22.2	
Taxes	-23.3	-20.3	-11.3	-30.8	106.9	-24.3	
PAT	69.8	57.7	32.7	88.9	113.8	-21.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21	FY22E		FY23E		Comments	
			Old	New % Change	Old	New % Change		
Revenue	2,196.1	2,527.5	3,146.0	3,292.0	4.6	3,788.8	3,908.0	3.1 Reliagn estimates post Q2
EBITDA	342.4	410.7	496.5	522.8	5.3	606.9	630.6	3.9
EBITDA Margin (%)	15.6	16.2	15.8	15.9	10 bps	16.0	16.1	12 bps
PAT	165.7	211.0	276.4	299.8	8.5	343.9	365.9	6.4
Diluted EPS (₹)	25.4	32.4	42.4	46.0	8.5	52.8	56.1	6.4

Source: Company, ICICI Direct Research

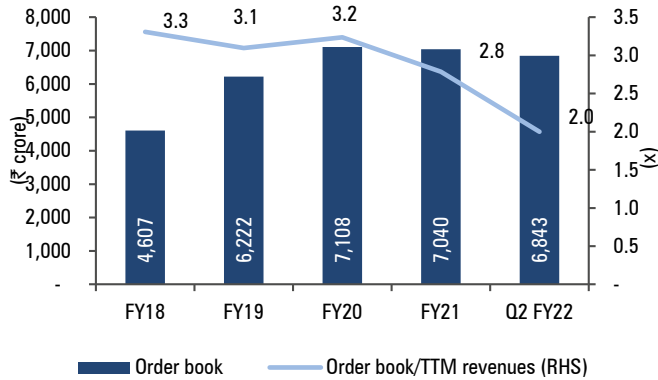
Exhibit 3: Valuation Table

Particular	Valuation method	₹ /share
Standalone EPC business	15x FY23E EPS	842
HAM Projects	1x P/B	42
Total (Rounded off)		885
CMP		740
Potential upside (%)		20%

Source: Company, ICICI Direct Research

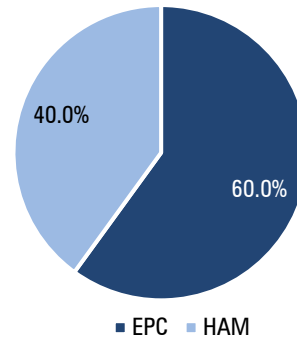
Company Analysis

Exhibit 4: Order book trend



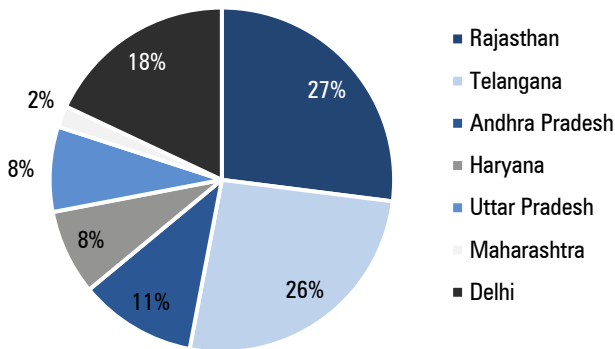
Source: Company, ICICI Direct Research

Exhibit 5: Order book composition



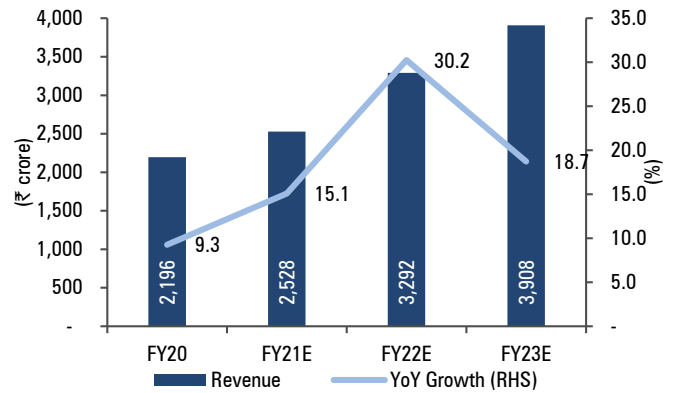
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



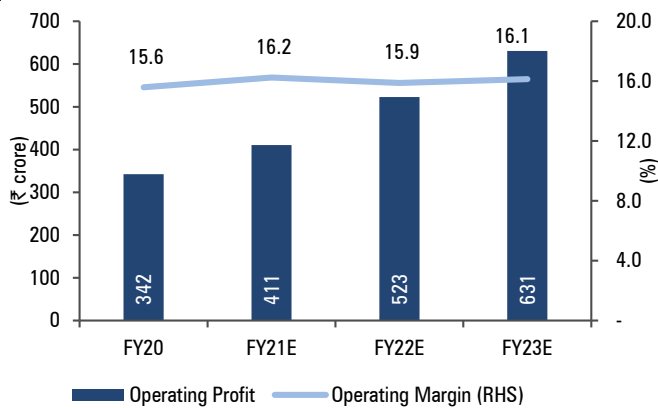
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



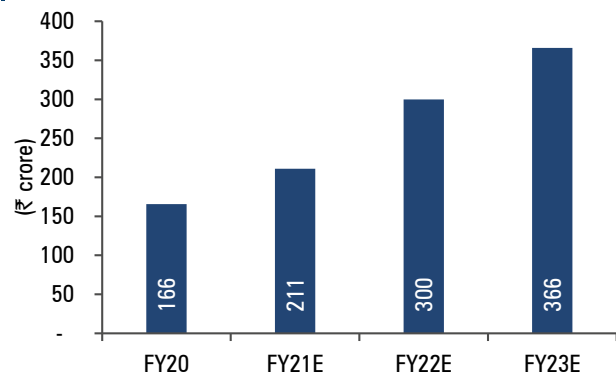
Source: Company, ICICI Direct Research

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			
(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	2,196.1	2,527.5	3,292.0	3,908.0
Growth (%)	9.3	15.1	30.2	18.7
Raw Material Cost	1,706.4	1,980.8	2,610.6	3,087.3
Employee Cost	111.4	109.3	120.1	140.2
Other Expenditure	36.0	26.7	38.5	49.9
Total Operating Expenditure	1,853.8	2,116.8	2,769.2	3,277.4
EBITDA	342.4	410.7	522.8	630.6
Growth (%)	12.9	19.9	27.3	20.6
Other income	13.7	15.4	18.9	20.0
Depreciation	75.6	84.4	91.4	99.5
EBIT	280.4	341.7	450.3	551.1
Interest	52.4	59.6	49.5	61.9
PBT	228.1	282.1	400.8	489.2
Tax	62.3	71.2	101.0	123.3
Rep. PAT	165.7	211.0	299.8	365.9
Exceptional items				
Adj. Net Profit	165.7	211.0	299.8	365.9
Growth (%)	34.1	27.3	42.1	22.1
EPS (₹)	25.4	32.4	46.0	56.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	165.7	211.0	299.8	365.9
Depreciation	75.6	84.4	91.4	99.5
Interest	52.4	59.6	49.5	61.9
Others	(14.0)	(16.3)	(18.9)	(20.0)
Cash Flow before wc changes	279.7	338.7	421.8	507.3
Net Increase in Current Assets	(379.1)	186.0	(272.2)	(211.6)
Net Increase in Current Liabilities	341.9	(11.1)	194.3	142.6
Net CF from operating activities	242.5	513.6	343.9	438.3
Net purchase of Fixed Assets	(107.2)	(75.7)	(79.6)	(84.6)
Others	(61.5)	(146.6)	(189.3)	(405.1)
Net CF from Investing Activities	(168.7)	(222.3)	(268.9)	(489.7)
Proceeds from share capital	0.6	2.9	(0.0)	0.0
Proceeds/Repayment from Loan	(3.9)	(87.3)	12.6	71.9
Interest paid	(52.4)	(59.6)	(49.5)	(61.9)
Others	(3.9)	(3.3)	(5.2)	(6.5)
Net CF from Financing Activities	(59.6)	(147.2)	(42.2)	3.5
Net Cash flow	14.2	144.1	32.8	(47.9)
Opening Cash and Cash Equivalent	100.2	114.4	258.4	291.2
Closing Cash & cash equivalents	114.4	258.5	291.2	243.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	756.4	967.0	1,261.6	1,621.0
Networth	821.6	1,032.2	1,326.8	1,686.2
Loan Funds	381.3	294.0	306.6	378.4
Deferred Tax liability	(8.7)	(9.5)	(9.5)	(9.5)
Other financial liabilities	12.2	2.6	3.3	4.3
Total Liabilities	1,206.5	1,319.3	1,627.1	2,059.4
Assets				
Net Block	482.4	483.0	471.2	456.3
Capital WIP	11.1	1.8	1.8	1.8
Non-current Investments	90.8	261.2	464.4	885.4
Other non-current assets	25.1	16.8	21.9	26.0
Loans	-	-	-	-
Inventories	105.5	168.0	198.4	214.1
Trade Receivables	811.1	657.5	784.7	856.6
Cash & Bank Balances	114.4	258.4	291.2	243.3
Loans & Advances	7.4	5.0	5.0	5.0
Other current assets	411.8	319.3	434.0	558.0
Total current assets	1,450.3	1,408.2	1,713.3	1,877.0
Total Current liabilities	853.3	851.9	1,045.4	1,187.0
Net Current Assets	596.9	556.4	667.9	690.0
Total Assets	1,206.5	1,319.2	1,627.1	2,059.4

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	25.4	32.4	46.0	56.1
Cash EPS	37.0	45.3	60.0	71.4
BV per share	126.1	158.4	203.6	258.7
Revenue per share	337.0	387.8	505.1	599.7
Cash Per Share	17.6	39.7	44.7	37.3
Operating Ratios (%)				
EBITDA Margin	15.6	16.2	15.9	16.1
EBIT/ Net Sales	12.1	12.9	13.1	13.6
PAT Margin	7.5	8.3	9.1	9.4
Inventory days	17.5	24.3	22.0	20.0
Debtor days	134.8	95.0	87.0	80.0
Creditor days	103.5	72.0	67.0	61.0
Return Ratios (%)				
RoE	20.2	20.4	22.6	21.7
RoCE	23.2	25.9	27.7	26.8
RoIC	24.8	30.9	32.4	29.3
Valuation Ratios (x)				
P/E	29.1	22.9	16.1	13.2
EV / EBITDA	14.9	11.8	9.3	7.9
EV / Net Sales	2.3	1.9	1.5	1.3
Price to Book Value	5.9	4.7	3.6	2.9
Solvency Ratios (x)				
Debt / EBITDA	1.1	0.7	0.6	0.6
Net Debt / Equity	0.3	0.0	0.0	0.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA, Lokesh Kashikar, MMS, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.