

Decent performance; 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 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

Q1FY23 Results: HG Infra reported decent set of Q1FY23 numbers.

- Standalone revenue improved 16.6% YoY to ₹ 1,065.7 crore. On a QoQ basis, the company reported 3.9% growth. Its topline was largely 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 ₹ 162.5 crore, up 8% YoY, with margin at 15.2%
- PAT was at ₹ 97.6 crore (up 9.8% YoY)

What should investors do? HG Infra's share price has grown ~2.2x over the past four years (from ~₹ 267 in March 2018 to ₹ 582 levels in July 2022).

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

Target Price and Valuation: We value HG Infra at a target price of ₹ 765.

Key triggers for future price performance:

- HG Infra is likely to be one of the major recipients of thriving roads, railways and water supply segments. Healthy 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 provide margin sustainability at ~15.5-16%
- Double-digit return ratios and lean balance sheet position

Alternate Stock Idea: Besides HG Infra, we like KNR Constructions in infra space.

- Play on strong execution and lean balance sheet
- BUY with a target price of ₹ 310/share

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
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%	397.9	446.0	14.7%
EPS (₹)	19.0	25.4	32.4	52.0		61.0	68.4	
P/E (x)	30.7	22.9	18.0	11.2		9.5	8.5	
EV/EBITDA (x)	13.5	11.9	9.2	6.9		6.2	5.4	
RoCE (%)	22.7	23.2	25.9	28.7		26.0	24.6	
RoE (%)	18.7	20.2	20.4	24.8		22.7	20.3	

Source: Company, ICICI Direct Research



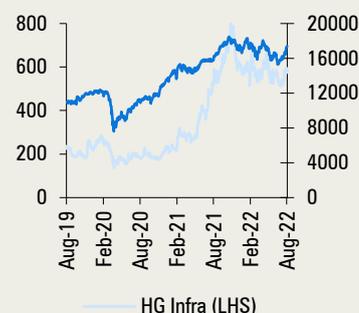
Particulars

Particular	Amount
Market Capitalization	3,799.5
Total Debt (₹ crore)	410.6
Cash (₹ crore)	158.5
EV (₹ crore)	4,051.6
52 week H/L (₹)	830 / 481
Equity capital	65.2
Face value	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	74.5	74.5	74.5	74.5
DII	13.1	12.3	12.5	12.5
FII	2.2	1.3	0.7	0.6
Other	10.3	11.9	12.3	12.4

Price Chart



Key Risks

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

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Key business highlight and outlook

Order book robust at 3.1x revenues; provides healthy visibility

As on June 30, 2022, HG Infra's order book was robust at ₹ 11,508 crore (3.1x book to TTM revenues) aided by Ganga Expressway sub-contracting EPC job (worth ₹ 4,970.9 crore) secured during Q1FY23. Overall, the company has guided for order inflows of ~₹ 9,000-10,000 crore during FY23, to be driven by a strong order pipeline in the 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 robust order book position, b) receipt of appointed date in most of its projects and c) pick-up in execution. With these, the company has retained its guidance of ~₹ 5,000 crore, ~₹ 6,000 crore of topline directed for FY23E, FY24E, respectively (vs. ₹ 3,615 crore posted in FY22). Also, operating margin is likely to sustain at 15.5-16% during FY23 with softening in input prices and better operating efficiencies.

Debt increases QoQ; likely to normalise

HG Infra's balance sheet has remained lean over the years backed by its prudent strategy to mainly focus on an asset light business model and efficient manage working capital. However, its gross debt at the end of Q1FY23 on a standalone level has jumped to ₹ 447.5 crore (vs. ₹ 314.7 crore at FY22-end) mainly due to a) increase in debtors from various SPVs and b) higher equity and working capital requirement in newly commenced HAM projects. Going forward, it has total equity requirement of ₹ 1,137 crore (₹ 529.5 crore already invested till Q1FY23; ₹ 286 crore, ₹ 208 crore, ₹ 113 crore to be spent during balance period of FY23, FY24, FY25, respectively) towards already secured HAM projects. Despite these, its debt is likely to normalise with healthy operating cash flow generation arising from improved profitability, better cash flow management and normalisation in debtor days (backed by receipt of pending mobilisation advances). Also, monetisation of HAM assets would free its invested capital, in turn, increasing its ability to bag newer projects.

Key conference call takeaways

- 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 (₹ 3,500 crore), Appointed date (AD) pending/newer projects (₹ 500 crore) and Ganga Expressway (₹ 1,000 crore)
- The company faced several headwinds in FY22, which include 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 HG Infra to protect overall margin profile during FY22 (at >16%). While a change in project mix and input cost rise has impacted its margin in Q1FY23, it is likely to improve to ~15.5-16% in FY23 and 16%+ in FY24 with diversified project mix and softening in input prices
- At present, bid pipeline for the company is at ~₹ 7,000 crore spread mainly across roads, metro, water projects. Additionally, the management believes ordering pipeline in the road sector from NHAI would improve ahead with authority targeting projects spanning 6,000 km to tender during FY23
- Overall, 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
- During Q1FY23, HG Infra secured a sub-contracting job from Adani Road Transport for Ganga Expressway (Group-II) project (design length: 151.7 km) in Uttar Pradesh on an EPC basis. The overall order size was at ₹ 4,970.1 crore (inclusive of GST) to be completed in 27 months. Margin expectation is at ~15%. The management expects execution on the project to begin by September 2022-end with receipt of appointed date

- HG Infra has secured appointed date (AD) in the newly won HAM projects i.e. Raipur Visakhapatnam OD - Package 5 and six projects on May 30, 2022 and 1st June 2022 respectively. With the receipt of AD, the construction work has picked-up pace and the company has completed 5% and 6% work as on June 30, 2022 for Package 5 and 6. Among other key HAM jobs, the company has completed a) 96% in Rewari Ateli Mandi, and b) 10% in Raipur-Visakhapatnam AP-1 project
- The company achieved financial closure for Khammam Devarapalle Package – 2 (bid project cost: ₹ 637 crore) on July 20, 2022, and expects AD by mid-October 2022. For Khammam Devarapalle Package – 1 (bid project cost: ₹ 772 crore), the company is likely to sign concession agreement soon with significant progress witnessed in land acquisition (52% land available as on June 30, 2022) and expects receipt of AD by November 2022
- HG Infra has completed execution in Delhi Vadodara Package-4 and Hapur Moradabad projects. Among other key EPC projects, the company has completed a) 84% in Delhi Vadodara Package-8, b) 73% in Delhi Vadodara Package-9, and c) 64% in Mancherial – Repallewa projects
- 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 the 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 is now completed ~14% by June 2022-end. In the Neelmangala-Tumkur EPC project, the company expects appointed date during August 2022-end
- HG Infra has incurred ₹ 45 crore towards capex during Q1FY23. Overall, the management has guided for ~₹ 135 crore of gross capex during FY23 (net addition of ~₹ 90 crore considering disposal of assets) required to be spent for newer projects and jobs in newer targeting segments
- HG Infra is in advanced stage of discussions with three potential investors for monetisation of its four HAM assets (three completed: Gurgaon-Sohna, Rewari Ateli Mandi and Narnaul Bypass 1; advanced stage of completion: Rewari Bypass Package-4) and expects positive outcome by FY23-end. The total equity invested till Q1FY23 in these four HAM projects is at ₹ 324 crore
- HG Infra has achieved PCoD for three HAM projects viz. a) 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 ~₹ 26 crore) and expects receipt over the next six months

Considering its healthy executable order book position and robust execution skill, we expect execution momentum to continue in the near-to-medium term. While operating margin has moderated during Q1FY23, it is likely to improve from here on gradually with softened input prices. Additionally, strong return ratios, healthy working capital cycle, and lean balance sheet position remains key positive. We maintain BUY rating with a TP of ₹ 765/share (based on SoTP based valuation). We value core business at 10x FY24 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 differentiate it among peers.

Exhibit 1: Variance Analysis

Particulars	Q1 FY23	Q1 FY23E	Q1 FY22	Q4 FY22	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,065.7	1,012.0	913.6	1,025.9	16.6	3.9	Revenue led by healthy executable OB position and execution pick-up
Other Income	3.3	3.6	1.5	2.7	118.7	24.0	
Consumption of raw materials	857.0	814.7	723.7	827.0	18.4	3.6	
Employee benefit expenses	37.6	33.4	31.0	33.5	21.3	12.4	
Other Expenses	8.6	10.1	8.5	8.6	0.6	-0.6	
EBITDA	162.5	153.8	150.4	156.8	8.0	3.6	
EBITDA Margin (%)	15.2	15.2	16.5	15.3	-122 bps	-4 bps	Change in project mix and rise in input costs impacted margin performance
Depreciation	-20.1	-23.4	-20.3	-21.8	-0.8	-7.8	
Interest	-14.4	-16.8	-11.9	-16.0	21.1	-9.9	
PBT	131.2	117.2	119.7	121.6	9.6	7.9	
Taxes	-33.6	-29.9	-30.8	-30.5	9.0	10.0	
PAT	97.6	87.3	88.9	91.1	9.8	7.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,387.0	4,387.0	0.0	5,066.5	5,066.5	0.0	
EBITDA	680.2	680.2	0.0	783.9	783.9	0.0	
EBITDA Margin (%)	15.5	15.5	0 bps	15.5	15.5	0 bps	
PAT	395.2	397.9	0.7	442.5	446.0	0.8	Change in Depreciation and finance expense improved PAT
Diluted EPS (₹)	60.6	61.0	0.7	67.9	68.4	0.8	

Source: Company, ICICI Direct Research

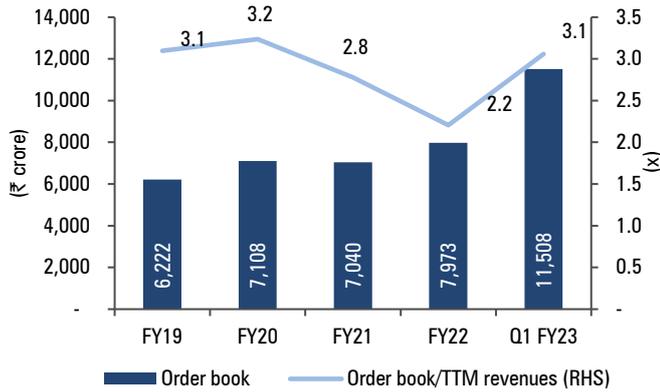
Exhibit 3: Valuation

Particular	Valuation method	₹ /share
Standalone EPC business	10x FY24E EPS	684
HAM Projects	1x P/B	81
Total (Rounded off)		765
CMP		583
Potential upside (%)		31%

Source: Company, ICICI Direct Research

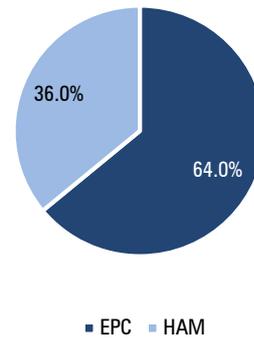
Company Analysis

Exhibit 4: Order book trend*



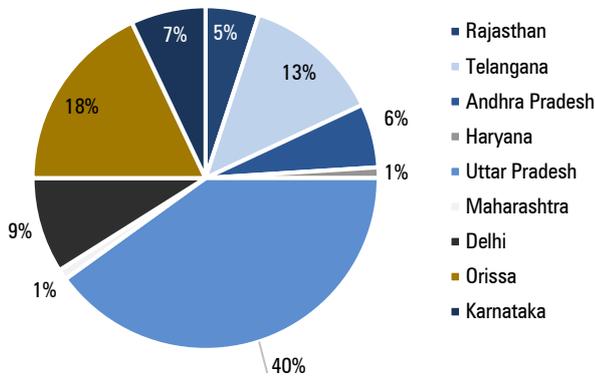
Source: Company, ICICI Direct Research

Exhibit 5: Order book composition



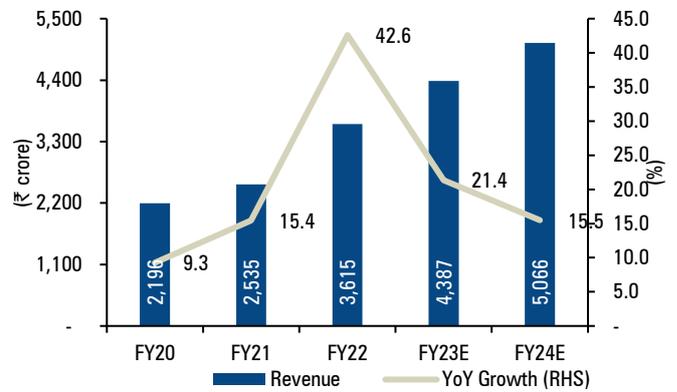
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



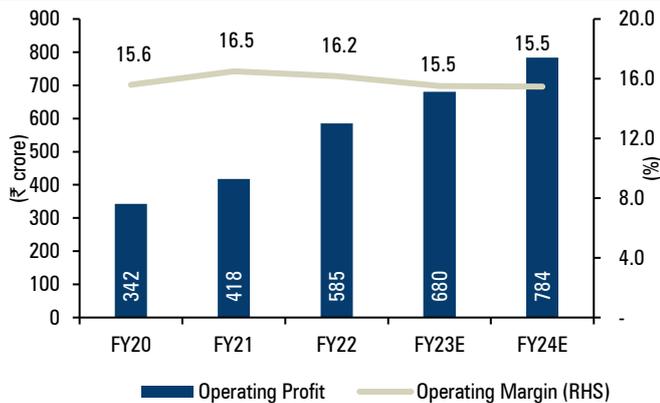
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



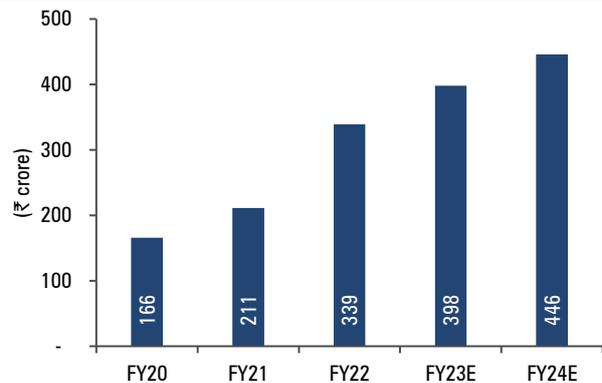
Source: Company, ICICI Direct Research

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
Net Sales	2,535.0	3,615.2	4,387.0	5,066.5
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	3,706.8	4,282.5
EBITDA	418.1	584.8	680.2	783.9
Growth (%)	22.1	39.9	16.3	15.2
Other income	8.0	7.8	9.8	10.2
Depreciation	84.4	85.1	90.9	99.6
EBIT	341.7	507.5	599.1	694.5
Interest	59.6	52.8	67.2	98.2
PBT	282.1	454.7	531.9	596.3
Tax	71.2	115.9	134.0	150.3
Rep. PAT	211.0	338.8	397.9	446.0
Exceptional items				
Adj. Net Profit	211.0	338.8	397.9	446.0
Growth (%)	27.3	60.6	17.4	12.1
EPS (₹)	32.4	52.0	61.0	68.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	211.0	338.8	397.9	446.0
Depreciation	84.4	85.1	90.9	99.6
Interest	59.6	52.8	67.2	98.2
Others	(8.8)	(9.6)	(9.8)	(10.2)
Cash Flow before wc changes	346.1	467.1	546.2	633.7
Net Increase in Current Assets	186.0	(213.2)	(224.6)	(339.1)
Net Increase in Current Liabilities	(11.1)	(249.2)	129.5	86.0
Net CF from operating activi	521.0	4.7	451.1	380.5
Net purchase of Fixed Assets	(75.7)	(61.4)	(90.0)	(110.0)
Others	(154.1)	(100.3)	(458.0)	(203.7)
Net CF from Investing Activi	(229.7)	(161.7)	(548.0)	(313.7)
Proceeds from share capital	2.9	(0.1)	0.1	(0.0)
Proceeds/Repayment from Loan	(87.3)	116.6	141.1	85.2
Interest paid	(59.6)	(52.8)	(67.2)	(98.2)
Others	(3.3)	(6.5)	(6.5)	(8.1)
Net CF rom Financing Activi	(147.2)	57.1	67.5	(21.2)
Net Cash flow	144.1	(99.9)	(29.3)	45.6
Opening Cash	114.4	258.4	158.5	129.2
Closing Cash & cash equival	258.5	158.5	129.2	174.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	967.0	1,299.2	1,690.7	2,128.5
Networth	1,032.2	1,364.3	1,755.8	2,193.7
Loan Funds	294.0	410.6	551.7	636.9
Deferred Tax liability	(9.5)	(11.4)	(11.4)	(11.4)
Other financial liabilities	2.6	6.0	7.2	8.2
Total Liabilities	1,319.3	1,769.5	2,303.3	2,827.5
Assets				
Net Block	483.0	459.0	458.0	468.4
Capital WIP	1.8	2.2	2.2	2.2
Non-current Investments	261.2	354.5	815.5	1,023.5
Othe 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	877.4	999.4
Cash & Bank Balances	258.4	158.5	129.2	174.8
Loans & Advances	5.0	23.3	23.3	23.3
Other current assets	319.3	456.7	446.6	626.4
Total current assets	1,408.2	1,521.5	1,716.8	2,101.5
Total Current liabilities	851.9	599.3	727.6	812.5
Net Current Assets	556.4	922.2	989.2	1,289.0
Total Assets	1,319.3	1,769.5	2,303.3	2,827.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	32.4	52.0	61.0	68.4
Cash EPS	45.3	65.0	75.0	83.7
BV per share	158.4	209.3	269.4	336.6
Revenue per share	389.0	554.7	673.2	777.4
Cash Per Share	39.7	24.3	19.8	26.8
Operating Ratios (%)				
EBITDA Margin	16.5	16.2	15.5	15.5
EBIT/ Net Sales	13.2	13.8	13.4	13.5
PAT Margin	8.3	9.4	9.1	8.8
Inventory days	24.2	18.5	20.0	20.0
Debtor days	94.7	70.6	73.0	72.0
Creditor days	71.8	44.0	44.0	42.0
Return Ratios (%)				
RoE	20.4	24.8	22.7	20.3
RoCE	25.9	28.7	26.0	24.6
RoIC	31.6	31.3	27.3	25.9
Valuation Ratios (x)				
P/E	18.0	11.2	9.5	8.5
EV / EBITDA	9.2	6.9	6.2	5.4
EV / Net Sales	1.5	1.1	1.0	0.8
Price to Book Value	3.7	2.8	2.2	1.7
Solvency Ratios (x)				
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

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