

Order book provides strong growth visibility!

About the stock: HG Infra Engineering is a Jaipur (Rajasthan) based infrastructure company with primary focus on roads and allied sectors. Additionally, recently, it has won a few projects across railways, station redevelopment and metro segments.

- Reported 27.9% revenue CAGR over FY17-22 with improved operating margin
- Prudent management, lean balance sheet position, superior return ratios

Site visit and Analyst Meet: We visited the Ganga Expressway project.

- The execution has seen decent traction as the company had efficiently done the initial mobilisation. It is targeting completion in 24 months vs. the stipulated timeline of 27 months. With construction work worth ~₹ 110 crore in February and likely ~₹ 150 crore in March, it expects revenues of ~₹ 280-300 crore in Q4 and ~₹ 2200 crore in FY24. HG Infra reiterated that it sees no challenge on receivables and is receiving payments on time
- It is in advanced stages of discussions for monetisation of its four HAM assets and expects a binding share purchase agreement (SPA) to be signed by April, 2023 (vs. March end envisaged earlier with delay owing to technical due diligence). It expects to receive the amount by September, 2023

What should investors do? HG Infra's share price has grown at ~23% CAGR over the past five years (from ~₹ 268 in March 2018 to ₹ 767 levels currently).

- We maintain our **BUY** rating as we expect robust execution pace on healthy order book to drive strong earnings growth ahead

Target Price and Valuation: We value HG Infra at a target price of ₹ 915.

Key triggers for future price performance:

- Strong order book position and execution pick-up to translate into 18% topline CAGR over FY22-25E
- Current order mix with built-in raw material price variation clauses in most of its contracts provide margin sustainability at ~15.5-16%
- Asset monetisation to free up equity for further scalability and bids

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

- Play on strong execution and margins improvement
- BUY with a target price of ₹ 120/share

Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales	2,196.1	2,535.0	3,615.2	27.9%	4,395.4	5,153.5	5,932.7	18.0%
EBITDA	342.4	418.1	584.8	36.3%	699.1	795.0	912.9	16.0%
EBITDA Margin (%)	15.6	16.5	16.2		15.9	15.4	15.4	
Net Profit	165.7	211.0	338.8	44.7%	414.4	458.4	525.5	15.8%
EPS (₹)	25.4	32.4	52.0		63.6	70.3	80.6	
P/E (x)	30.2	23.7	14.8		12.1	10.9	9.5	
EV/EBITDA (x)	15.4	12.1	9.0		7.8	7.0	6.1	
RoCE (%)	23.2	25.9	28.7		27.2	24.9	23.6	
RoE (%)	20.2	20.4	24.8		23.4	20.6	19.2	

Source: Company, ICICI Direct Research



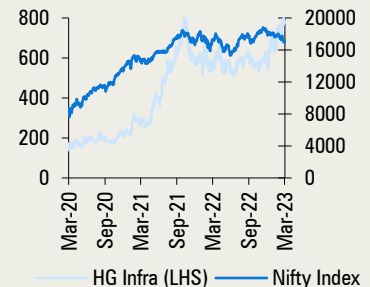
Particulars

Particular	Amount
Market Capitalization	5,010
Total Debt (₹ crore)	411
Cash (₹ crore)	158
EV (₹ crore)	5,262
52 week H/L (₹)	824 / 508
Equity capital (₹ crore)	65.2
Face value	₹ 10

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	74.5	74.5	74.5	74.5
DII	12.5	12.5	12.2	14.0
FII	0.7	0.6	0.6	0.6
Other	12.3	12.4	12.6	10.9

Price Chart



Key Risks

Key Risk: (i) Weaker-than-expected execution; (ii) Any receivables delay

Research Analyst

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Key business highlight and outlook

Ganga Expressway execution remains on fast lane

- Ganga Expressway is a greenfield access-controlled six lane expressway with length of 594 km. UPEIDA awarded the expressway in four packages with Adani Road Transport winning three packages (length: 464 km) and IRB Infra (length: 130 km) winning one package
- During Q1FY23, HG Infra had **secured a sub-contracting job from Adani Road Transport for Ganga Expressway (package-II) project (design length: 151.7 km) from Budaun to Hardoi in Uttar Pradesh on an EPC basis**. The overall order size was at ₹ 4,438 crore **to be completed in 27 months with a bonus clause of ₹ 50 crore, if the project is executed in 24 months**. The company secured appointed date on November 3, 2022
- HG Infra reiterated that it sees **no challenge on receivables with the project being on Adani group's priority while Adani has invested 50% of the required upfront equity**. The company is receiving ~60% of billed amount within 15 days of raising bills with remaining being paid over 15-30 days
- The execution on the project has seen decent traction as the company had **efficiently done the initial mobilisation**. With construction work worth ₹ 110 crore in February and likely ₹ 150 crore in March, it **expects revenues of ₹ 280-300 crore in Q4**. The management had earlier indicated revenue of ₹ 2200 crore during FY24 with margins hovering at 15%+ from the project
- The company said while aggregate sourcing was done from nearby states, it had built in the logistics costs and thus, remains confident on margins

Asset monetisation plans ahead...

HG Infra is in **advanced stages of discussions 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 binding share purchase agreement (SPA) to be signed by April, 2023 (vs. March end envisaged earlier with delay owing to technical due diligence)**. The monetisation of HAM assets would further free its invested capital, in turn, increasing its ability to bag newer projects. The total equity invested in these four HAM projects is at ₹ 343 crore. It expects valuations of 1.4x P/BV. **It expects to receive the amount by September, 2023**. Going ahead, **its debt is likely to be controlled [the company envisages peak debt of ₹ 500 crore (without taking monetisation proceed into account)]**, aided by 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).

Meets order inflow guidance, strong growth visibility ahead

As on Q3, HG Infra's order book was robust at ₹ 11064 crore (2.8x book to TTM revenues). Overall, the **company received order inflows of ~₹ 9400 crore during FY23 (in line with guidance)**. On the execution front, the company **expects a ramp-up in execution to continue driven by a) its robust order book position, b) receipt of appointed date in most of its projects (except for new orders in Q3 end and Q4)**. It has, thus reiterated its standalone revenues guidance of **~₹ 4400-4500 crore for FY23 and ~₹ 5500 crore (~22-25% YoY growth in FY24), and 15-20% growth thereafter**. Further, operating margins are likely to sustain at 15.5-16%, going ahead, with softening in input prices and better operating efficiencies.

Considering its healthy executable order book position and robust execution skill, we expect the execution pace to remain robust in the near-to-medium term. Also, margins are likely to sustain with softened input prices and better project mix. Also, monetisation will provide another lever of scalability ahead. We maintain BUY rating with a target price of ₹ 915/share (based on SoTP based valuation). We value the core business at 10x FY25 P/E and HAM projects at 1x equity invested.

Exhibit 3: Valuation

Particular	Valuation method	₹/share
Standalone EPC business	10x FY25E EPS	806
HAM Projects	1x P/B	110
Total (Rounded off)		915

Source: Company, ICICI Direct Research

Site Photographs

Exhibit 4: Site Photos



Source: Company, ICICI Direct Research

Exhibit 5: Site Photos



Source: Company, ICICI Direct Research

Exhibit 6: Site Photos



Source: Company, ICICI Direct Research

Exhibit 7: Site Photos



Source: Company, ICICI Direct Research

Exhibit 8: Site Photos



Source: Company, ICICI Direct Research

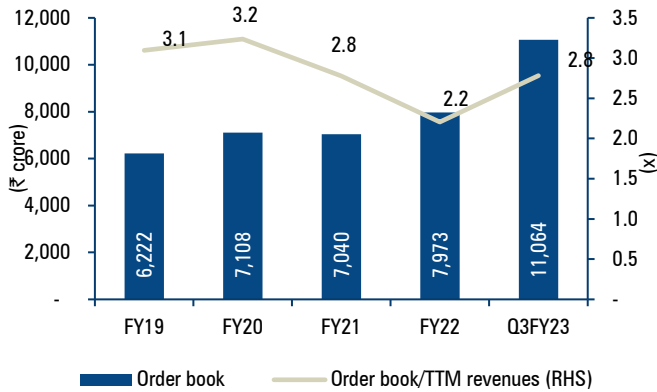
Exhibit 9: Site Photos



Source: Company, ICICI Direct Research

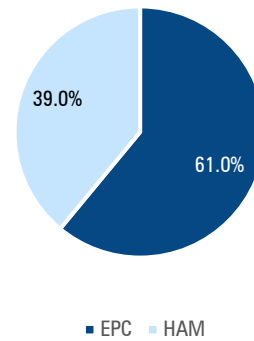
Company Analysis

Exhibit 10: Order book trend



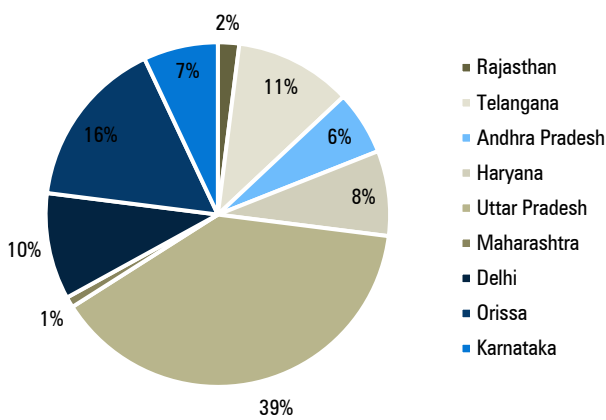
Source: Company, ICICI Direct Research

Exhibit 11: Order book composition



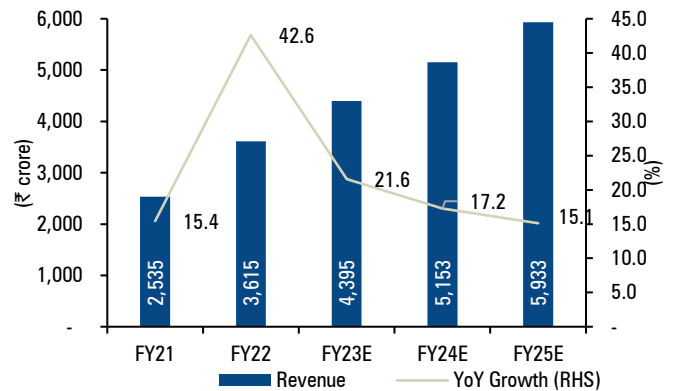
Source: Company, ICICI Direct Research

Exhibit 12: Well-diversified order book position



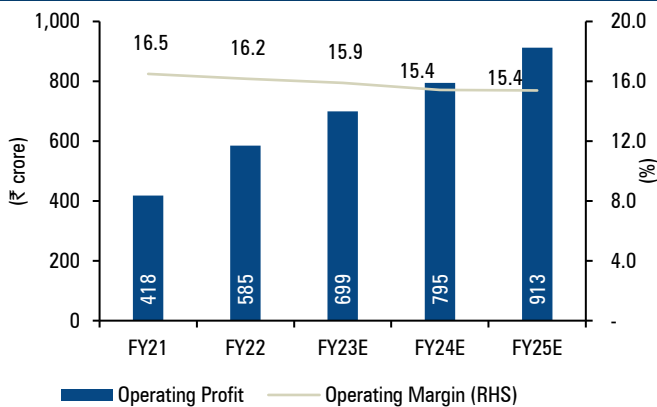
Source: Company, ICICI Direct Research

Exhibit 13: Annual revenue trend



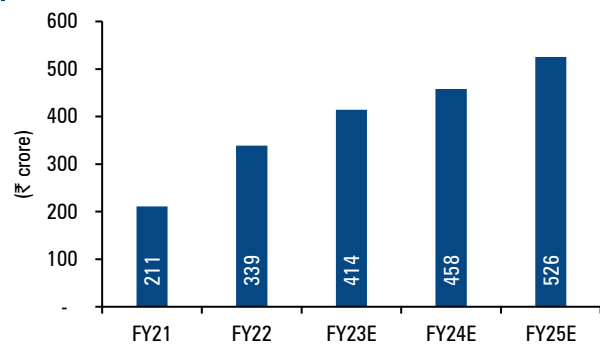
Source: Company, ICICI Direct Research

Exhibit 14: Annual EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 15: Annual PAT trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	3,615.2	4,395.4	5,153.5	5,932.7
Growth (%)	42.6	21.6	17.2	15.1
Raw Material Cost	2,868.2	3,475.5	4,102.2	4,740.2
Employee Cost	127.9	176.5	210.1	226.9
Other Expenditure	34.3	44.3	46.3	52.7
Total Operating Expenditure	3,030.4	3,696.4	4,358.5	5,019.8
EBITDA	584.8	699.1	795.0	912.9
Growth (%)	39.9	19.5	13.7	14.8
Other income	7.8	13.0	12.8	12.7
Depreciation	85.1	95.0	107.9	117.5
EBIT	507.5	617.1	699.8	808.1
Interest	52.8	60.1	83.8	101.8
PBT	454.7	557.0	616.1	706.3
Tax	115.9	142.6	157.7	180.8
Rep. PAT	338.8	414.4	458.4	525.5
Exceptional items				
Adj. Net Profit	338.8	414.4	458.4	525.5
Growth (%)	60.6	22.3	10.6	14.7
EPS (₹)	52.0	63.6	70.3	80.6

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	338.8	414.4	458.4	525.5
Depreciation	85.1	95.0	107.9	117.5
Interest	52.8	60.1	83.8	101.8
Others	(9.6)	(13.0)	(12.8)	(12.7)
Cash Flow before wc changes	467.1	556.5	637.2	732.0
Net Increase in Current Assets	(213.2)	(185.5)	(376.6)	(470.4)
Net Increase in Current Liabilities	(249.2)	130.9	126.9	43.8
Net CF from operating activities	4.7	501.9	387.5	305.4
Net purchase of Fixed Assets	(61.4)	(150.0)	(90.0)	(90.0)
Others	(100.3)	(454.8)	(323.9)	(165.1)
Net CF from Investing Activities	(161.7)	(604.8)	(413.9)	(255.1)
Proceeds from share capital	(0.1)	0.1	(0.0)	0.0
Proceeds/Repayment from Loan	116.6	89.6	91.5	95.5
Interest paid	(52.8)	(60.1)	(83.8)	(101.8)
Others	(6.5)	(6.5)	(8.1)	(8.1)
Net CF rom Financing Activities	57.1	23.2	(0.5)	(14.4)
Net Cash flow	(99.9)	(79.8)	(26.8)	36.0
Opening Cash	258.4	158.5	78.7	51.9
Closing Cash & cash equivalents	158.5	78.7	51.9	87.9

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	1,299.2	1,707.2	2,157.4	2,674.8
Networth	1,364.3	1,772.4	2,222.6	2,740.0
Loan Funds	410.6	500.2	591.7	687.2
Deferred Tax liability	(11.4)	(11.4)	(11.4)	(11.4)
Other financial liabilities	6.0	7.2	8.4	9.8
Total Liabilities	1,769.5	2,268.4	2,811.3	3,425.5
Assets				
Net Block	459.0	513.9	496.1	468.6
Capital WIP	2.2	2.2	2.2	2.2
Non-current Investments	354.5	815.5	1,145.5	1,315.5
Othe non-current assets	31.7	38.5	45.2	53.0
Loans	-	-	-	-
Inventories	183.6	228.8	268.3	308.8
Trade Receivables	699.5	850.4	997.1	1,147.9
Cash & Bank Balances	158.5	78.7	51.9	87.9
Loans & Advances	23.3	23.3	23.3	23.3
Other current assets	456.7	446.0	636.5	915.6
Total current assets	1,521.5	1,627.3	1,977.0	2,483.4
Total Current liabilities	599.3	729.0	854.7	897.1
Net Current Assets	922.2	898.3	1,122.3	1,586.3
Total Assets	1,769.5	2,268.4	2,811.3	3,425.5

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Reported EPS	52.0	63.6	70.3	80.6
Cash EPS	65.0	78.2	86.9	98.7
BV per share	209.3	272.0	341.0	420.4
Revenue per share	554.7	674.4	790.8	910.3
Cash Per Share	24.3	12.1	8.0	13.5
Operating Ratios (%)				
EBITDA Margin	16.2	15.9	15.4	15.4
EBIT/ Net Sales	13.8	13.7	13.3	13.4
PAT Margin	9.4	9.4	8.9	8.9
Inventory days	18.5	19.0	19.0	19.0
Debtor days	70.6	70.6	70.6	70.6
Creditor days	44.0	44.0	44.0	38.4
Return Ratios (%)				
RoE	24.8	23.4	20.6	19.2
RoCE	28.7	27.2	24.9	23.6
RoIC	31.3	27.8	25.0	23.9
Valuation Ratios (x)				
P/E	14.8	12.1	10.9	9.5
EV / EBITDA	9.0	7.8	7.0	6.1
EV / Net Sales	1.5	1.2	1.1	0.9
Price to Book Value	3.7	2.8	2.2	1.8
Solvency Ratios (x)				
Debt / EBITDA	0.7	0.7	0.7	0.8
Net Debt / Equity	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

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Sell: <-15%



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