

BUY**HG Infra Engineering****Attractively priced**


Your success is our success

Engineering & Capital Goods, Infra ▶ Company Update ▶ June 21, 2023

TARGET PRICE (Rs): 1,130

HG Infra, having demonstrated its execution capabilities in the roads sector with 26%/38% revenue/PAT CAGR (FY19-23), is steadily adopting the diversification strategy — Over FY23, it bagged orders worth Rs15bn in the rail/metro segments, thus opening up larger avenues of growth ahead. HG targets non-roads inflow at 20-25% of the overall inflows, in coming years. Further, it recently entered into a share purchase agreement for four HAM projects at 1.55x P/B which, we believe, will give investors' confidence on the company's bidding strategy for HAM projects. Given that HG Infra is expected to bid for more projects during FY24 vs FY23 in both, the roads and rail sectors, and that tendering in the roads sector (Apr-May '23) is up 25% YoY, its FY24 inflow target of Rs80-90bn looks achievable. We have a BUY with TP of Rs1,130.

HG Infra Engineering: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	25,275	36,152	44,185	51,136	63,820
EBITDA	4,107	5,847	7,103	8,186	9,898
Adj. PAT	2,110	3,388	4,214	4,870	6,034
Adj. EPS (Rs)	32.4	52.0	64.7	74.7	92.6
EBITDA margin (%)	16.2	16.2	16.1	16.0	15.5
EBITDA growth (%)	19.9	42.4	21.5	15.2	20.9
Adj. EPS growth (%)	27.3	60.6	24.4	15.6	23.9
RoE (%)	22.8	28.3	26.8	24.1	23.5
RoIC (%)	28.8	39.7	37.8	39.8	44.5
P/E (x)	26.8	16.7	13.4	11.6	9.4
EV/EBITDA (x)	13.7	9.9	8.4	7.2	5.7
P/B (x)	5.5	4.1	3.2	2.5	2.0
FCFF yield (%)	7.7	(0.5)	4.4	7.0	9.4

Source: Company, Emkay Research

Demonstrated profitable execution capabilities

During the last 5 years, HG has clocked 28%/38% EBITDAM/CAGR, with 23% order-book growth over the same period. This has been possible on the back of a disciplined project-bidding strategy and investment in a modern construction equipment fleet. RoE has been in excess of 20%, with NWC in the 25-45-day range.

Diversification already started

HG's relentless bidding for non-roads sector projects since some time now has finally seen success (Rs15bn order inflow during FY23). Company is focusing on rail/metro and water projects in key states, and targets achieving 20-25% inflow from the non-roads sector in the next few years. This will alleviate concerns about HG being a single-sector EPC player. Opportunity size will increase, with valuations expanding as well.

Monetization of HAM projects a confidence booster

The company recently entered into a share purchase agreement for four HAM projects at 1.55x P/B. This is a clear demonstration of its prudent bidding strategy for HAM projects.

Roads tenders have seen 25% growth in 1QFY24 to date

Tenders in the roads sector have grown 25% during Apr-May '23 which will fructify into order finalization in coming months. Tendering data for Rail/water supply has also been healthy. Hence, we believe HG will be able to achieve inflow of Rs80-90bn.

Valuation

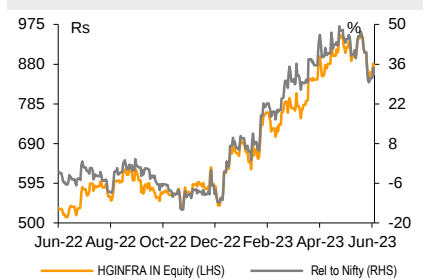
At CMP of Rs866/share, excluding the value of HAM projects, core EPC currently trades at ~7x FY25 EPS. We factor-in ~20% sales/PAT CAGR over FY23-25E. We build-in EBITDAM of 15.5% in FY25E vs 16.1% currently. We believe that given the company's diversification strategy, the opportunity size for EPC over the medium term expands considerably; hence, the PER would improve going forward. We maintain BUY on the stock, with TP of Rs1,130/share (core EPC valued at 10x P/E, implying Rs926/share).

Target Price – 12M	Mar-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	30.5
CMP (20-Jun-23) (Rs)	866.0

Stock Data	Ticker
52-week High (Rs)	978
52-week Low (Rs)	511
Shares outstanding (mn)	65.2
Market-cap (Rs bn)	56
Market-cap (USD mn)	687
Net-debt, FY24E (Rs mn)	2,629
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	167.2
ADTV-3M (USD mn)	2.0
Free float (%)	-
Nifty-50	18,817
INR/USD	82.1
Shareholding, Mar-23	
Promoters (%)	74.5
FPIs/MFs (%)	1.3/14.0

Price Performance

(%)	1M	3M	12M
Absolute	(5.8)	11.8	63.1
Rel. to Nifty	(8.9)	0.9	33.0

1-Year share price trend (Rs)**Abhineet Anand**

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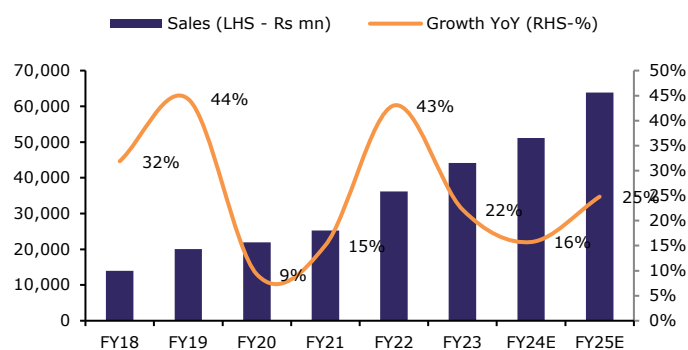
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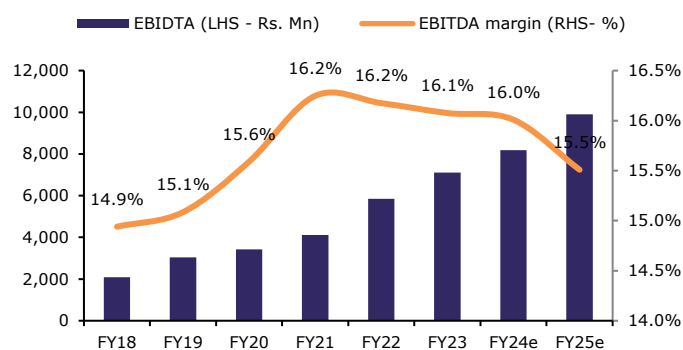
Story in charts

Exhibit 1: Sales expected to grow ~20% during FY24E and FY25E



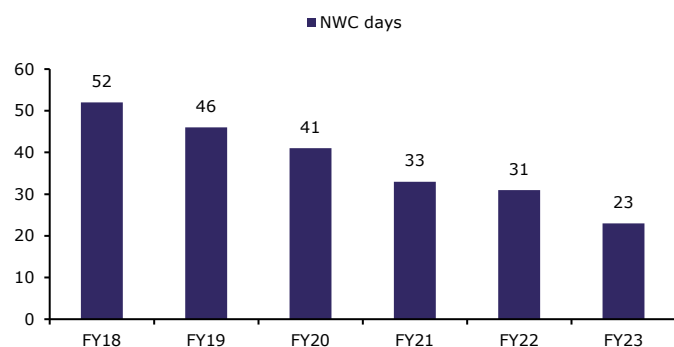
Source: Company, Emkay Research

Exhibit 2: EBDITAM expected to be flat, at around 16%



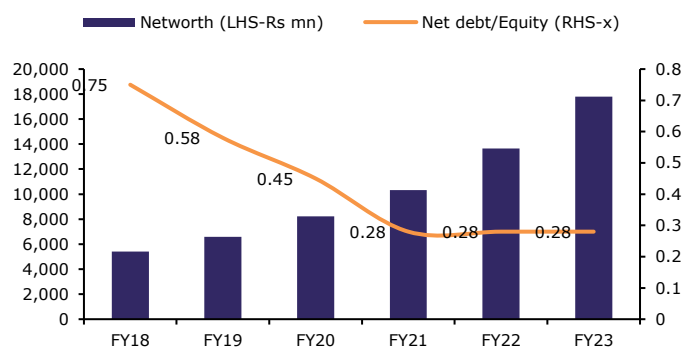
Source: Company, Emkay Research

Exhibit 3: Net working capital continues to improve



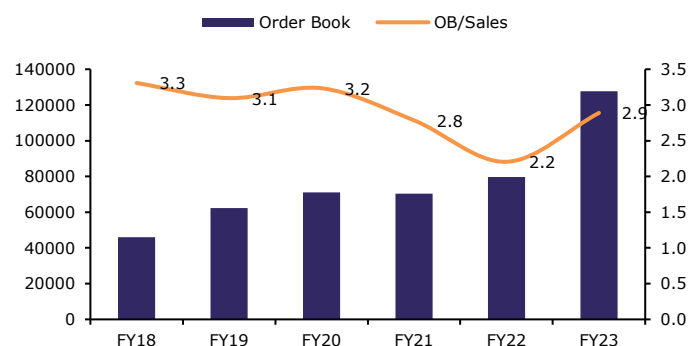
Source: Company, Emkay Research

Exhibit 4: Net Debt:Equity remains constant



Source: Company, Emkay Research

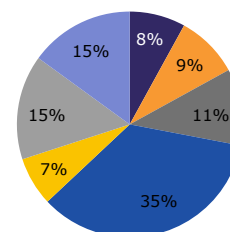
Exhibit 5: Strong order book (Rs mn) with improved book-to-bill ratio (x)



Source: Company, Emkay Research

Exhibit 6: State-wise order book break-up - diverse presence

Delhi | Telangana | Odisha | Uttar Pradesh | Haryana | Jharkhand | Others



Source: Company, Emkay Research

Exhibit 7: HG Infra — SoTP-based value (Mar-24E)

Valuation – SoTP-based method	March 2024E
Standalone EPC business	
EPS – Mar-25 (Rs)	93
P/E (x)	10
Rs/share	926
Investment in HAM (4 HAM projects at Rs5.3bn and Rs8bn in others)	13,300
Rs/share	204
SoTP-based TP (Rs)	1,130
CMP (Rs)	866
Upside	30%

Source: Company, Emkay Research

HG Infra Engineering: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	25,275	36,152	44,185	51,136	63,820
Revenue growth (%)	15.1	43.0	22.2	15.7	24.8
EBITDA	4,107	5,847	7,103	8,186	9,898
EBITDA growth (%)	19.9	42.4	21.5	15.2	20.9
Depreciation & Amortization	844	851	963	1,173	1,290
EBIT	3,262	4,997	6,140	7,013	8,607
EBIT growth (%)	22.3	53.2	22.9	14.2	22.7
Other operating income	0	0	0	0	0
Other income	154	78	181	100	120
Financial expense	596	528	633	620	682
PBT	2,821	4,546	5,687	6,493	8,046
Extraordinary items	0	0	0	0	0
Taxes	712	1,159	1,474	1,623	2,011
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	2,110	3,388	4,214	4,870	6,034
PAT growth (%)	27.3	60.6	24.4	15.6	23.9
Adjusted PAT	2,110	3,388	4,214	4,870	6,034
Diluted EPS (Rs)	32.4	52.0	64.7	74.7	92.6
Diluted EPS growth (%)	27.3	60.6	24.4	15.6	23.9
DPS (Rs)	0.0	0.8	1.0	0.0	0.0
Dividend payout (%)	0.0	1.5	1.5	0.0	0.0
EBITDA margin (%)	16.2	16.2	16.1	16.0	15.5
EBIT margin (%)	12.9	13.8	13.9	13.7	13.5
Effective tax rate (%)	25.2	25.5	25.9	25.0	25.0
NOPLAT (pre-IndAS)	2,440	3,723	4,549	5,260	6,455
Shares outstanding (mn)	65.2	65.2	65.2	65.2	65.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	2,821	4,546	5,687	6,493	8,046
Others (non-cash items)	0	0	0	0	0
Taxes paid	(685)	(1,104)	(1,571)	(1,623)	(2,011)
Change in NWC	2,378	(4,504)	526	(970)	(1,036)
Operating cash flow	5,292	240	6,058	5,593	6,850
Capital expenditure	(957)	(527)	(3,426)	(1,487)	(1,500)
Acquisition of business	(1,704)	(1,019)	(3,895)	(2,954)	(2,400)
Interest & dividend income	66	58	79	100	120
Investing cash flow	(2,701)	(1,396)	(7,130)	(4,424)	(3,780)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(1,428)	879	1,899	300	0
Payment of lease liabilities	34	14	14	14	14
Interest paid	(596)	(528)	(633)	(620)	(682)
Dividend paid (incl tax)	0	(52)	(65)	0	0
Others	592	(69)	90	0	(2)
Financing cash flow	(1,431)	229	1,290	(320)	(683)
Net chg in Cash	1,160	(927)	219	850	2,387
OCF	5,292	240	6,058	5,593	6,850
Adj. OCF (w/o NWC chg.)	7,670	(4,264)	6,584	4,624	5,814
FCFF	4,335	(287)	2,632	4,106	5,350
FCFE	3,805	(758)	2,079	3,586	4,789
OCF/EBITDA (%)	128.9	4.1	85.3	68.3	69.2
FCFE/PAT (%)	180.4	(22.4)	49.3	73.6	79.4
FCFF/NOPLAT (%)	177.7	(7.7)	57.9	78.1	82.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	652	652	652	652	652
Reserves & Surplus	9,670	12,992	17,133	22,003	28,036
Net worth	10,322	13,643	17,784	22,654	28,688
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(95)	(114)	(210)	(210)	(210)
Total debt	2,278	3,156	5,055	5,355	5,355
Total liabilities & equity	12,504	16,686	22,630	27,800	33,833
Net tangible fixed assets	4,795	4,559	6,291	6,539	6,748
Net intangible assets	26	18	15	31	31
Net ROU assets	10	12	40	12	12
Capital WIP	18	22	719	719	719
Goodwill	0	0	0	0	0
Investments [JV/Associates]	2,612	3,631	7,526	10,480	12,880
Cash & equivalents	2,584	1,585	1,794	2,726	5,113
Current assets (ex-cash)	11,666	13,947	18,576	19,350	22,568
Current Liab. & Prov.	9,207	7,003	12,253	12,058	14,239
NWC (ex-cash)	2,459	6,945	6,323	7,292	8,328
Total assets	12,504	16,686	22,630	27,800	33,832
Net debt	(307)	1,571	3,261	2,629	242
Capital employed	12,504	16,686	22,630	27,800	33,833
Invested capital	7,290	11,448	12,590	13,874	15,120
BVPS (Rs)	158.4	209.3	272.9	347.6	440.2
Net Debt/Equity (x)	0.0	0.1	0.2	0.1	0.0
Net Debt/EBITDA (x)	(0.1)	0.3	0.5	0.3	0.0
Interest coverage (x)	0.2	0.1	0.1	0.1	0.1
RoCE (%)	28.1	34.8	32.2	28.2	28.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	26.8	16.7	13.4	11.6	9.4
P/CE(x)	19.1	13.3	10.9	9.3	7.7
P/B (x)	5.5	4.1	3.2	2.5	2.0
EV/Sales (x)	2.2	1.6	1.4	1.2	0.9
EV/EBITDA (x)	13.7	9.9	8.4	7.2	5.7
EV/EBIT(x)	17.2	11.6	9.7	8.4	6.6
EV/IC (x)	7.7	5.1	4.7	4.3	3.7
FCFF yield (%)	7.7	(0.5)	4.4	7.0	9.4
FCFE yield (%)	6.7	(1.3)	3.7	6.4	8.5
Dividend yield (%)	0.0	0.1	0.1	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	8.3	9.4	9.5	9.5	9.5
Total asset turnover (x)	2.1	2.5	2.2	2.0	2.1
Assets/Equity (x)	1.3	1.2	1.3	1.2	1.2
RoE (%)	22.8	28.3	26.8	24.1	23.5
DuPont-RoIC					
NOPLAT margin (%)	9.7	10.3	10.3	10.3	10.1
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	28.8	39.7	37.8	39.8	44.5
Operating metrics					
Core NWC days	35.5	70.1	52.2	52.1	47.6
Total NWC days	35.5	70.1	52.2	52.1	47.6
Fixed asset turnover	3.4	4.5	4.6	4.3	4.8
Opex-to-revenue (%)	5.4	4.5	5.9	6.0	6.5

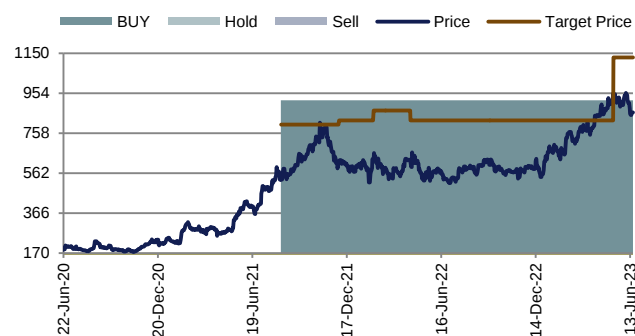
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
12-May-23	944	1,130	Buy	Abhineet Anand
14-Mar-23	786	820	Buy	Abhineet Anand
26-Feb-23	727	820	Buy	Abhineet Anand
16-Feb-23	764	820	Buy	Abhineet Anand
12-Jan-23	669	820	Buy	Abhineet Anand
14-Dec-22	622	820	Buy	Abhineet Anand
21-Nov-22	571	820	Buy	Abhineet Anand
14-Sep-22	623	820	Buy	Abhineet Anand
18-Aug-22	574	820	Buy	Abhineet Anand
18-Apr-22	615	820	Buy	Abhineet Anand
06-Feb-22	630	870	Buy	Abhineet Anand
02-Dec-21	624	820	Buy	Abhineet Anand
13-Aug-21	531	800	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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