

CMP: ₹ 981

Target: ₹ 1250 (27%)

Target Period: 12 months

BUY

April 1, 2024

Recent diversification, order inflows improve outlook...

About the stock: HG Infra Engineering Ltd is a Jaipur (Rajasthan) based infrastructure company having primary focus on Roads and allied sectors. Additionally, the company is actively looking to diversify itself by targeting into railways and water infra segment.

- Reported 26% revenue CAGR over FY18-23 with improved operating margin.

Investment Rationale:

- Order book witnesses diversification:** HG has witnessed a focussed diversification to other segment such as Railways and Solar. The company which was executing two railways' orders with pending value of ₹ 934 crore as of Q3FY24, added three orders from Railway post Q3 worth ₹ 1936 crore. It also won orders worth ₹ 1246 crore for 5 projects of solar projects in JV with Stockwall Solar Services from Jodhpur Vidyut Vitran Nigam Ltd alongwith Solar EPC order. We highlight that order book diversification was much needed amid the heavy dependence on roads, which had muted ordering in FY24.
- Recent inflows improved revenues visibility:** The orderbook as of Q3FY24 stood at ₹ 9626 crore, 1.94x TTM book to bill. However, during Q4FY24, the company has won orders worth ~₹ 4700+ crore across railways, solar and road segment. We highlight that while the order inflow is lower than targeted ₹ 6000 crore, current order inflows (clearly better than peers) ensures that 17-20% topline growth guidance for FY24 and ₹ 6000 crore revenues guidance would be achievable. We have baked in ~15.5% CAGR in topline over FY23-26E to ₹ 6805 crore. Sustained margins at 154-15.7% would ensure, ~17.7% CAGR in earnings over FY23-26E.
- Lean Balance Sheet; internal accruals to fund HAM projects:** HG enjoys a lean balance sheet with standalone gross ₹ 470 crore and cash of ₹ 142 crore. Furthermore, ₹ 370 crore from asset sale proceed is also lying as debtor receivable from SPVs. For its HAM projects, total equity requirement is of ₹ 1331crore. Out of the same, ₹ 604 crore has already been invested till Q3FY24. Furthermore, ₹ 74 crore, ₹ 465 crore, ₹ 196 crore to be spent during Q4FY24, FY25, FY26 respectively). The equity requirement is likely to be met through internal accruals.

Rating and Target Price

- Considering its healthy executable order book position and robust execution skill, we expect execution pace to remain robust in the near-to-medium term along with sustained margins. Additionally, strong return ratios, healthy working capital cycle and asset monetisation remains key positive. We expect HG to be key beneficiary post ordering resumption in FY25.
- We value HG at ₹ 1250 on SoTP basis and maintain our BUY rating

Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	FY26E	3 yr CAGR (FY23-26E)
Net Sales	2,535.0	3,615.2	4,418.5	26.0%	5,201.7	5,989.0	6,804.8	15.5%
EBITDA	418.1	584.8	710.3	27.8%	801.5	925.8	1,069.3	14.6%
EBITDA Margin (%)	16.5	16.2	16.1		15.4	15.5	15.7	
Net Profit	211.0	338.8	421.4	38.0%	486.1	587.0	686.6	17.7%
EPS (₹)	32.4	52.0	64.7		74.6	90.1	105.3	
P/E (x)	30.3	18.9	15.2		13.2	10.9	9.3	
EV/EBITDA (x)	15.4	11.4	9.6		8.6	7.4	6.4	
RoCE (%)	25.9	28.7	26.4		25.2	24.3	23.4	
RoE (%)	20.4	24.8	23.7		21.5	20.7	19.5	

Source: Company, ICICI Direct Research



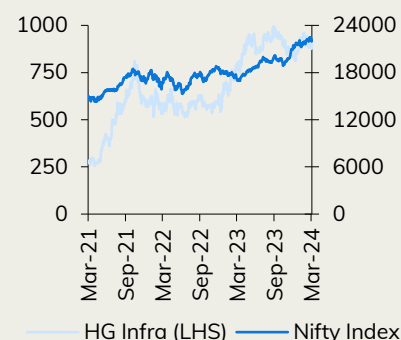
Particulars

Particular	Amount
Market Capitalization	6,393
Total Debt (₹ crore)	470
Cash (₹ crore)	142
EV (₹ crore)	6,721
52 week H/L (₹)	1017 / 753
Equity capital (₹ crore)	65.2
Face value	10.0

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	74.5	74.5	74.5	74.5
DII	14.0	13.1	13.0	12.4
FII	1.3	1.6	1.7	1.6
Other	10.1	10.7	10.8	11.5

Price Chart



Key risks

- Lower margins in new segment orders
- Delay in any major projects execution

Research Analyst

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Q3FY24 Performance highlights and outlook

- **Asset Monetisation Progress:**
 - Recall, H.G. Infra had executed a Share Purchase Agreement with Highway Infrastructure Trust (sponsored by KKR) for sale of its 4 HAM projects. The Enterprise Value of the transaction is ₹ 1,394 crore (with ~₹ 531 crore. equity value). With ₹ 343 crore of equity investment, the valuation of deal is done at ~1.55x Price to Book
 - For first tranche of 3 HAM assets all the procedures, lender approvals required for successful closure of first tranche was done in Nov'23 at pre-tax consideration ₹ 375 crore (incl. ~₹ 62 crore of sub-debt). This is against ~₹ 268 equity invested; consequently, an exceptional gain of ~₹ 107 crore was booked in Q3FY24. Additionally, during the period before closing of transaction within the agreed valuation date, unsecured loan of ₹ 16.7 crore was refunded back to the promoter company which was provided to SPV during the construction period as interim arrangements in general course of business. For the 4th HAM project (Rewari Bypass) company is likely to receive ₹ 140 crore against the consideration of ₹ 126 crore. Thus, overall consideration would remain unaffected
- **Order book and Revenue outlook:** The orderbook as of Q3FY24 stood at ₹ 9626 crore, 1.94x TTM book to bill. However, during Q4FY24, the company has won orders worth ~₹ 4700+ crore across railways, solar and road segment. While the order inflow is lower than targeted ₹ 6000 crore, current order inflows (clearly better than peers) ensures that 17-20% topline growth guidance for FY24 and ₹ 6000 crore revenues guidance for FY25 would be achievable. We have baked in ~15.5% CAGR in topline over FY23-26E to ₹ 6805 crore. Sustained margins at 15.4-15.7% would ensure, ~17.7% CAGR in earnings over FY23-26E
- **HAM Project equity requirement:** For its HAM projects, total equity requirement is of ₹ 1331crore. Out of the same, ₹ 604 crore has already been invested till Q3FY24. Furthermore, ₹ 74 crore, ₹ 465 crore, ₹ 196 crore to be spent during Q4FY24, FY25, FY26 respectively). The equity requirement is likely to be met through internal accruals.
- **Debt and Cash position:** HG enjoys a lean balance sheet with standalone gross ₹ 470 crore and cash of ₹ 142 crore. Furthermore, ₹ 370 crore from asset sale proceed is also lying as debtor receivable from SPVs.

Exhibit 1: SoTP Valuation

Particular	Valuation method	₹ /share
Standalone EPC business	11x FY26E EPS	1,159
HAM Projects	At deal value and 1x P/B for remaining assets	92
Total (Rounded off)		1,250

Source: ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
₹ crore				
(₹ Crore)	FY23	FY24E	FY25E	FY26E
Net Sales	4,418.5	5,201.7	5,989.0	6,804.8
Growth (%)	22.2	17.7	15.1	13.6
Raw Material Cost	3,447.5	4,099.0	4,731.3	5,375.8
Employee Cost	195.9	233.6	254.6	272.4
Other Expenditure	64.9	67.6	77.3	87.3
Total Operating Expend	3,708.2	4,400.2	5,063.2	5,735.5
EBITDA	710.3	801.5	925.8	1,069.3
Growth (%)	21.5	12.8	15.5	15.5
Other income	18.1	14.2	17.0	17.2
Depreciation	96.3	113.4	123.3	132.8
EBIT	632.0	702.3	819.5	953.7
Interest	63.3	52.4	34.7	35.8
PBT	568.7	649.9	784.8	917.9
Tax	147.4	163.8	197.8	231.3
Rep. PAT	421.4	486.1	587.0	686.6
Exceptional items				
Adj. Net Profit	421.4	486.1	587.0	686.6
Growth (%)	24.4	15.4	20.8	17.0
EPS (₹)	64.7	74.6	90.1	105.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
₹ crore				
(₹ Crore)	FY23	FY24E	FY25E	FY26E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	1,713.3	2,193.5	2,772.3	3,458.9
Networth	1,778.4	2,258.6	2,837.5	3,524.1
Loan Funds	503.7	391.0	372.6	354.9
Deferred Tax liability	(21.0)	(21.0)	(21.0)	(21.0)
Other financial liabilities	16.1	18.6	21.6	25.2
Total Liabilities	2,277.2	2,647.3	3,210.8	3,883.1
Assets				
Net Block	634.6	621.2	587.9	545.1
Capital WIP	71.9	71.9	71.9	71.9
Non-current Investments	744.7	1,184.7	1,543.7	1,902.7
Other non-current assets	42.1	49.5	58.3	68.6
Loans	-	-	-	-
Inventories	235.3	277.0	319.0	362.4
Trade Receivables	879.1	997.6	1,148.6	1,305.0
Cash & Bank Balances	179.4	46.7	41.7	141.5
Loans & Advances	6.2	6.2	6.2	6.2
Other current assets	694.9	809.4	950.3	1,113.4
Total current assets	1,994.9	2,136.9	2,465.7	2,928.6
Total Current liabilities	1,211.1	1,417.1	1,516.8	1,633.9
Net Current Assets	783.8	719.8	948.9	1,294.7
Total Assets	2,277.2	2,647.3	3,210.8	3,883.1

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
₹ crore				
(₹ Crore)	FY23	FY24E	FY25E	FY26E
Profit after Tax	421.4	486.1	587.0	686.6
Depreciation	96.3	113.4	123.3	132.8
Interest	63.3	52.4	34.7	35.8
Others	(27.7)	(14.2)	(17.0)	(17.2)
CF before wc changes	553.3	637.8	728.1	838.0
Net Increase in CA	(452.5)	(274.7)	(333.8)	(363.0)
Net Increase in CL	504.6	187.8	78.2	91.8
Net CF from op. activities	605.5	550.8	472.5	566.8
Net purchase of Fixed Assets	(341.8)	(100.0)	(90.0)	(90.0)
Others	(382.5)	(433.3)	(350.7)	(352.1)
Net CF from Inv. Activities	(724.4)	(533.3)	(440.7)	(442.1)
Proceeds from share capital	(0.8)	2.2	0.0	8.1
Loan Proceeds/Repayment	210.3	(91.9)	6.1	11.0
Interest paid	(63.3)	(52.4)	(34.7)	(35.8)
Others	(6.5)	(8.1)	(8.1)	(8.1)
Net CF rom Fin. Activities	139.8	(150.2)	(36.8)	(24.8)
Net Cash flow	20.9	(132.7)	(5.0)	99.9
Opening Cash	158.5	179.4	46.7	41.7
Closing Cash & cash equiv	179.4	46.7	41.7	141.5

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
Reported EPS	64.7	74.6	90.1	105.3
Cash EPS	79.4	92.0	109.0	125.7
BV per share	272.9	346.6	435.4	540.7
Revenue per share	678	798	919	1,044
Cash Per Share	27.5	7.2	6.4	21.7
Operating Ratios (%)				
EBITDA Margin	16.1	15.4	15.5	15.7
EBIT/ Net Sales	13.9	13.2	13.4	13.8
PAT Margin	9.5	9.3	9.8	10.1
Inventory days	19.4	19.4	19.4	19.4
Debtor days	72.6	70.0	70.0	70.0
Creditor days	61.4	60.8	53.0	46.7
Return Ratios (%)				
RoE	23.7	21.5	20.7	19.5
RoCE	26.4	25.2	24.3	23.4
RoIC	28.8	25.9	24.7	24.3
Valuation Ratios (x)				
P/E	15.2	13.2	10.9	9.3
EV / EBITDA	9.6	8.6	7.4	6.4
EV / Net Sales	1.5	1.3	1.1	1.0
Price to Book Value	3.6	2.8	2.3	1.8
Solvency Ratios (x)				
Debt / EBITDA	0.9	0.7	0.6	0.5
Net Debt / Equity	0.2	0.2	0.2	0.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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