

May 13, 2024

Guides for a healthy outlook ...

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

- Reported 20.6% revenue CAGR over FY19-24 with sustained operating margin driving ~30.3% earnings CAGR over the same period

Q4 & FY24 Performance: HG Infra reported stable set of numbers. Standalone revenue was up 11.2% YoY to ₹ 1634.5 crore. EBITDA margin stood at 16.2% (flattish YoY). It witnessed 8.3% YoY growth in PAT to ₹ 160 crore, with bottomline growth being lower due to higher depreciation. For FY24, Revenues were up 15.9% YoY to ₹ 5122 crore. Margin at 16% was largely stable YoY. PAT at ₹ 545 crore was up 19.5% YoY

Investment Rationale:

- Diversified order book; Healthy revenue growth visibility ahead:** The orderbook as of FY24 stood at ₹ 12,434 crore, 2.4x TTM book to bill. During Q4FY24, the company has won orders worth ~₹ 4350 crore across railways, solar and road segment. The key highlight was diversification of order book, as Roads now forms 68% of the order book, while Roads/Metro and Solar form 21% and 10% of the order book, respectively. While the order inflow was lower than initially targeted ₹ 8000 crore, current order inflows (clearly better than peers) ensures that 15-20% topline growth guidance for FY25 can be met. We have baked in ~16.3% CAGR in topline over FY24-26E to ₹ 6923 crore. Sustained margins at 15.5-15.7% would ensure, ~19.4% CAGR in earnings over FY24-26E.
- Lean Balance Sheet; internal accruals to fund HAM projects:** HG enjoys a lean balance sheet with standalone gross ₹ 451 crore and cash of ₹ 199 crore. Furthermore, it will receive remaining ₹ 60 crore from first tranche and ₹ 130 crore from Rewari Bypass monetisation by June, 2024. For its HAM projects, the company has so far infused an amount of ₹ 694 crore. The company has estimated that they would further infuse ₹ 505 crore in FY25 and balance ₹ 262 crore equally over FY26 and FY27. The equity requirement is likely to be met through internal accruals.

Rating and Target Price

- Considering its executable order book position and robust execution, we expect healthy topline and earnings growth. Additionally, strong balance sheet, return ratios and healthy working capital cycle remain key positive. HG is expected to be key beneficiary post ordering resumption in FY25.
- We value HG at ₹ 1445 on SoTP basis and maintain our BUY rating

Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	2 yr CAGR (FY24-26E)
Net Sales	2,535.0	3,615.2	4,418.5	5,121.7	20.6%	5,991.0	6,922.7	16.3%
EBITDA	418.1	584.8	710.3	822.0	22.1%	929.4	1,086.8	15.0%
EBITDA Margin (%)	16.5	16.2	16.1	16.0		15.5	15.7	
Reported Net Profit	211.0	338.8	421.4	545.5		545.5	662.1	
Adj Net Profit	211.0	338.8	421.4	464.5	30.3%	545.5	662.1	19.4%
EPS (₹)	32.4	52.0	64.7	83.7		83.7	101.6	
P/E (x)	36.8	22.9	18.4	14.2		14.2	11.7	
EV/EBITDA (x)	18.7	13.7	11.6	9.9		8.8	7.3	
RoCE (%)	25.9	28.7	26.4	24.0		23.1	23.3	
RoE (%)	20.4	24.8	23.7	20.0		19.1	18.8	

Source: Company, ICICI Direct Research



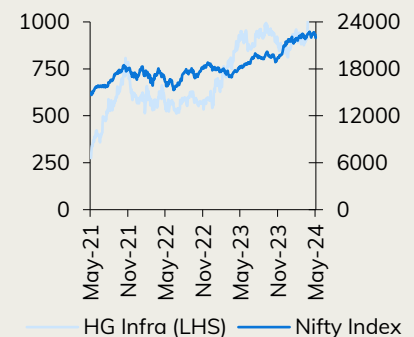
Particulars

Particular	Amount
Market Cap	7,765
Total Debt (₹ crore)	451
Cash (₹ crore)	199
EV (₹ crore)	8,017
52 week H/L (₹)	1229 / 805
Equity capital (₹ crore)	65.2
Face value	10.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	74.5	74.5	74.5	74.5
DII	13.1	13.0	12.4	12.5
FII	1.6	1.7	1.6	1.7
Other	10.7	10.8	11.5	11.3

Price Chart



Key risks

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

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Q4 & FY24 Performance highlights and outlook

- **Guidance:** The management has guided for 15-20% revenue growth and ~15-16% EBITDA margins for FY15. Revenue growth is expected largely from existing under construction project. In terms of order inflows, it expects ₹ 11000-12000 crore of order inflow in FY25. It expects awarding momentum to pick up post elections given robust NHAI pipeline. Out of total order inflow guidance, ~₹ 8000 is expected from road segment and balance from water, railway and metro.
- **Order book and Revenue outlook:** The orderbook as of Q3FY24 stood at ₹ 12,434 crore, 1.94x TTM book to bill. However, during Q4FY24, the company has won orders worth ~₹ 4350 crore across railways, solar and road segment. The key highlight was diversification of order book, as Roads now forms 68% of the order book, while Roads/Metro and Solar form 21% and 10% of the order book, respectively. While the order inflow was lower than initially targeted ₹ 8000 crore, current order inflows (clearly better than peers) ensures that 15-20% topline growth guidance for FY25 can be met. We have baked in ~16.3% CAGR in topline over FY24-26E to ₹ 6923 crore. Sustained margins at 15.5-15.7% would ensure, ~19.4% CAGR in earnings over FY24-26E
- **Order Book Diversification:**
 - **Railway:** The company effectively secured three new orders in the railway sector in EPC mode cumulating ₹ 1872 crore.
 - **Solar Power:** HG has entered into solar segment in a JV with Stockwell solar services with 65:35 share. It was awarded solar power project development work for 543 MW worth ₹ 2300 crore (HG share at ~₹ 1300 crore) from Jodhpur Vidhyut Vitran Nigam Limited for design, survey, supply, installation, testing, commissioning, operation & maintenance for 25 years of solar power plants under KUSUM scheme. 85% of total project cost is for procurement and only 15% is EPC. In addition to that the company has also won two small solar projects of 12 megawatts worth ₹ 162 crore in Q1FY25. The total equity requirement in the solar segment is ₹ 540 crore out of which the company would infuse an amount of ₹ 270 crore in FY 25 and the balance amount in FY26
 - **Water:** The company also informed it would look to enter the water segment in the areas like water desalination, wastewater treatment plan and other water supply projects in rural-urban areas like under JJM schemes, rainwater harvesting storage under Jal Shakti Abhiyan
 - **Roads:** The two new projects of highway were awarded cumulating to ₹ 1370 crore. The Chennai - Tirupati Package II in the state of Andhra Pradesh, for construction of access control highway of four lane on HAM, with EPC project cost of 760 crore and the Kali Mandir EPC Road project in the state of Jharkhand near Jamshedpur costing ₹ 610.1 crore
- **Asset Monetisation Progress:** For first tranche of 3 HAM assets, the company has received ₹ 315 crore out of ₹ 375 crore. Furthermore, it will receive remaining ₹ 60 crore from first tranche by June, 2024. For the 4th HAM project (Rewari Bypass) company is likely to receive ₹ 130 crore by June, 2024.
- **HAM Project equity requirement:** For its HAM projects, the company has so far infused an amount of ₹ 694 crore. The company has estimated that they would further infuse ₹ 505 crore in FY25 and

balance ₹ 262 crore equally over FY26 and FY27. The equity requirement is likely to be met through internal accruals

- **Debt and Cash position:** HG enjoys a lean balance sheet with standalone gross ₹ 451 crore and cash of ₹ 199 crore. Furthermore, ₹ 190 crore from asset sale proceed will also be received by June, 2024.

Exhibit 1: Quarter Performance

Particulars	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,634.5	1,469.6	1,346.4	11.2	21.4	Steady execution drove topline performance
Other Income	4.6	7.7	2.5	-40.8	79.8	
Consumption of raw materials	1,277.6	1,136.2	1,032.4	12.4	23.7	
Employee benefit expenses	74.3	62.8	77.6	18.3	-4.2	
Other Expenses	18.0	32.9	22.2	-45.3	-19.0	
EBITDA	264.6	237.7	214.2	11.3	23.5	
EBITDA Margin (%)	16.2	16.2	15.9	1 bps	28 bps	Margins sustained amid benign raw material prices
Depreciation	-38.0	-26.1	-36.7	45.6	3.5	
Interest	-19.5	-19.0	-22.6	2.6	-14.1	
PBT	211.7	200.4	264.2	5.6	-19.8	
Taxes	-51.8	-52.8	-58.7	-1.9	-11.8	
PAT	160.0	147.7	205.5	8.3	-22.2	Bottomline growth was lower owing to higher depreciation

Source: Company, ICICI Direct Research

Exhibit 2: SoTP Valuation

Particular	Valuation method	₹ /share
Standalone EPC business	13x FY26E EPS	1,321
HAM Projects	1x P/B for remaining assets and amount due for asset sales	124
Total (Rounded off)		1,445

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
₹ crore				
(₹ Crore)	FY23	FY24	FY25E	FY26E
Net Sales	4,418.5	5,121.7	5,991.0	6,922.7
Growth (%)	22.2	15.9	17.0	15.6
Raw Material Cost	3,447.5	3,918.9	4,625.0	5,347.8
Employee Cost	195.9	288.2	329.0	364.6
Other Expenditure	64.9	92.7	107.6	123.6
Total Operating Expend	3,708.2	4,299.8	5,061.6	5,835.9
EBITDA	710.3	822.0	929.4	1,086.8
Growth (%)	21.5	15.7	13.1	16.9
Other income	18.1	12.6	16.8	20.3
Depreciation	96.3	141.2	146.1	151.9
EBIT	632.0	693.4	800.1	955.2
Interest	63.3	81.0	70.9	70.0
PBT	568.7	612.4	729.2	885.2
Tax	147.4	173.7	183.8	223.1
Rep. PAT	421.4	438.7	545.5	662.1
Exceptional items				
Adj. Net Profit	421.4	438.7	545.5	662.1
Growth (%)	24.4	4.1	24.3	21.4
EPS (₹)	64.7	83.7	83.7	101.6

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
₹ crore				
(₹ Crore)	FY23	FY24	FY25E	FY26E
Profit after Tax	421.4	545.5	545.5	662.1
Depreciation	96.3	141.2	146.1	151.9
Interest	63.3	81.0	70.9	70.0
Others	(27.7)	(29.1)	(16.8)	(20.3)
CF before wc changes	553.3	738.5	745.6	863.7
Net Increase in CA	(452.5)	(566.8)	(295.1)	(420.5)
Net Increase in CL	504.6	85.7	165.9	82.9
Net CF from op. activities	605.5	257.4	616.5	526.1
Net purchase of Fixed Assets	(341.8)	(181.0)	(51.4)	(100.0)
Others	(382.5)	63.6	(505.4)	(130.6)
Net CF from Inv. Activities	(724.4)	(117.3)	(556.9)	(230.6)
Proceeds from share capital	(0.8)	2.7	(0.5)	8.1
Loan Proceeds/Repayment	210.3	(33.8)	44.2	(27.8)
Interest paid	(63.3)	(81.0)	(70.9)	(70.0)
Others	(6.5)	(8.1)	(8.1)	(8.1)
Net CF rom Fin. Activities	139.8	(120.2)	(35.3)	(97.8)
Net Cash flow	20.9	19.9	24.3	197.7
Opening Cash	158.5	179.4	199.3	223.6
Closing Cash & cash equiv	179.4	199.3	223.6	421.3

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
₹ crore				
(₹ Crore)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	1,713.3	2,253.3	2,790.2	3,452.3
Networth	1,778.4	2,318.5	2,855.3	3,517.4
Loan Funds	503.7	451.2	473.8	420.9
Deferred Tax liability	(21.0)	(37.5)	(37.5)	(37.5)
Other financial liabilities	16.1	16.8	18.7	20.9
Total Liabilities	2,277.2	2,748.9	3,310.3	3,921.8
Assets				
Net Block	634.6	742.2	647.6	595.6
Capital WIP	71.9	4.2	4.2	4.2
Non-current Investments	744.7	627.6	1,132.6	1,263.6
Othe non-current assets	42.1	108.2	125.4	145.3
Loans	-	-	-	-
Inventories	235.3	296.7	347.1	401.0
Trade Receivables	879.1	917.7	1,066.9	1,232.8
Cash & Bank Balances	179.4	199.3	223.6	421.3
Loans & Advances	6.2	1.5	1.5	1.5
Other current assets	694.9	1,166.5	1,262.0	1,462.6
Total current assets	1,994.9	2,581.6	2,901.0	3,519.2
Total Current liabilities	1,211.1	1,314.8	1,500.5	1,606.2
Net Current Assets	783.8	1,266.8	1,400.5	1,913.0
Total Assets	2,277.2	2,748.9	3,310.3	3,921.8

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Reported EPS	64.7	83.7	83.7	101.6
Cash EPS	79.4	105.4	106.1	124.9
BV per share	272.9	355.8	438.1	539.7
Revenue per share	678	786	919	1,062
Cash Per Share	27.5	30.6	34.3	64.6
Operating Ratios (%)				
EBITDA Margin	16.1	16.0	15.5	15.7
EBIT/ Net Sales	13.9	13.3	13.1	13.5
PAT Margin	9.5	9.1	9.1	9.6
Inventory days	19.4	21.1	21.1	21.1
Debtor days	72.6	65.4	65.0	65.0
Creditor days	61.4	65.1	51.9	45.1
Return Ratios (%)				
RoE	23.7	20.0	19.1	18.8
RoCE	26.4	24.0	23.1	23.3
RoIC	28.8	26.0	24.3	25.5
Valuation Ratios (x)				
P/E	18.5	14.3	14.3	11.8
EV / EBITDA	11.6	9.9	8.8	7.3
EV / Net Sales	1.9	1.6	1.4	1.2
Price to Book Value	4.4	3.4	2.7	2.2
Solvency Ratios (x)				
Debt / EBITDA	0.9	0.7	0.7	0.6
Net Debt / Equity	0.2	0.2	0.1	0.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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