

Asset monetisation to boost scalability!

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.
- As on FY23, order book stood at ₹ 12595 crore (2.9x book to TTM revenues).

Key Investment Thesis:

- Healthy book to drive robust execution ahead:** As on FY23, HG Infra's order book stood robust at ₹ 12595 crore (2.9x book to TTM revenues). It is looking for inflows worth ₹ 8000-9000 crore in FY24 (to maintain book to bill above ~2.5x), driven by a strong order pipeline in roads segment and growing opportunities in the other infrastructure verticals such as railways, and water supply. On the execution front, the company expects strong execution pace to continue driven by its robust order book position. With these, the company has guided for ~23% YoY growth during FY24. Strong order book position, receipt of appointed date in most of its projects, and execution pick-up to translate into ~17% topline CAGR over FY23-25E. Furthermore, current order mix with built-in raw material price variation clauses in most of its contracts provides margin sustainability at ~15.5%.
- Asset monetisation inked; to boost scalability:** H.G. Infra has 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. This deal will strengthen the balance sheet of the and will help HG to release capital for future growth and drive scalability. On debt front, the company expects the debt to come down to ₹ 350 crore in FY24 from ₹ 504 crore, driven by healthy cash generation

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 amid softened input prices and better project mix. Additionally, strong return ratios, healthy working capital cycle and asset monetisation remains key positive.
- We maintain our **BUY** rating
- We value HG Infra at ₹ 1150 per share (on SoTP basis)



Particulars

Particular	Amount
Market Capitalization	5,952
Total Debt (₹ crore)	504
Cash (₹ crore)	179
EV (₹ crore)	6,277
52 week H/L (₹)	978 / 532
Equity capital (₹ crore)	65.2
Face value	₹ 10

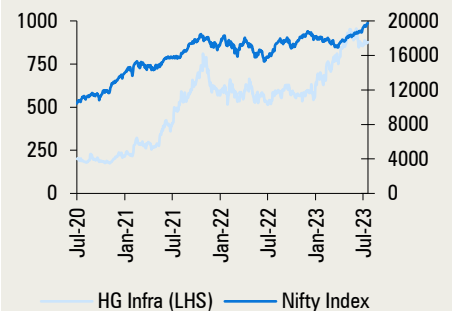
Shareholding Pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	74.5	74.5	74.5	74.5
DII	12.5	12.2	14.0	14.0
FII	0.6	0.6	0.6	1.3
Other	12.4	12.6	10.9	10.1

Risks to our call

- Any delay in major projects could impact revenues
- Volatility in Raw material prices could impact margins

Price Performance



Research Analyst

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales	2,196.1	2,535.0	3,615.2	4,418.5	26.0%	5,306.1	6,064.0	17.1%
EBITDA	342.4	418.1	584.8	710.3	27.8%	822.5	940.7	15.1%
EBITDA Margin (%)	15.6	16.5	16.2	16.1		15.5	15.5	
Net Profit	165.7	211.0	338.8	421.4	38.0%	501.7	595.5	18.9%
EPS (₹)	25.4	32.4	52.0	64.7		77.0	91.4	
P/E (x)	35.9	28.2	17.6	14.1		11.9	10.0	
EV/EBITDA (x)	18.2	14.3	10.6	9.0		7.8	6.8	
RoCE (%)	23.2	25.9	28.7	26.4		25.8	24.5	
RoE (%)	20.2	20.4	24.8	23.7		22.1	20.8	

Company Background

HG Infra Engineering Ltd is a Jaipur (Rajasthan) based infrastructure company having primary focus on Roads and allied sectors. It has a presence across 9 states with ~53% of the order book in the North. The company execution is driven by fleet of modern equipment of 2500+. Additionally, the company is actively looking to diversify itself by targeting into railways and water infra segment.

As on FY23, HG Infra's order book stood robust at ₹ 12595 crore (2.9x book to TTM revenues). Overall, the **company has received order inflows of ~₹ 8650 crore during FY23 (including ~₹ 3300 crore in Q4)**. The company has reported 26% revenue CAGR over FY18-23 with improved operating margin and PAT CAGR of ~38% over the same period.

The company has a portfolio of 12 Road Hybrid Annuity Projects (HAM) in which it has invested ₹ 736 crore of equity as of FY23. For all the 12 HAM projects, total equity requirement is of ₹ 1,612 crore (₹ 736 crore already invested till now; ₹ 440 crore, ₹ 359 crore, ₹ 76 crore to be spent during FY24, FY25, FY26 respectively).

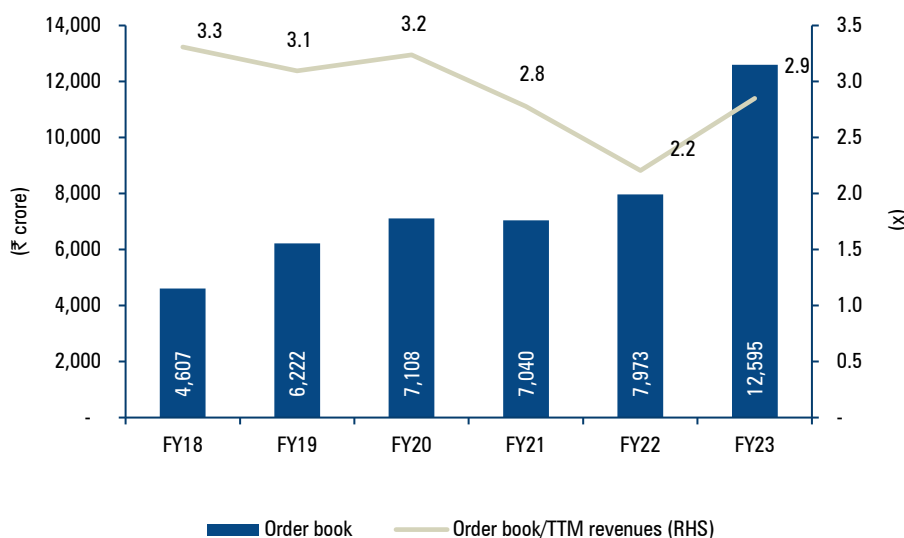
Investment Rationale

Order book robust at 2.9x revenues; provides healthy visibility

As on FY23, HG Infra's order book stood robust at ₹ 12595 crore (2.9x book to TTM revenues). Overall, the **company has received order inflows of ~₹ 8650 crore during FY23 (including ~₹ 3300 crore in Q4)**.

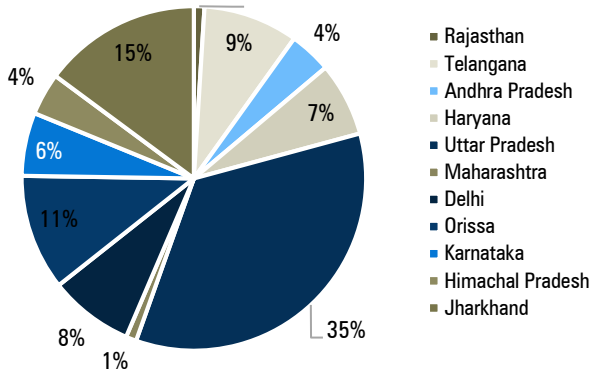
It is looking for inflows worth ₹ 8000-9000 crore in FY24 (to maintain book to bill above ~2.5x), driven by a strong order pipeline in roads segment and growing opportunities in the other infrastructure verticals such as railways, and water supply.

Exhibit 1: Order Book provides strong visibility



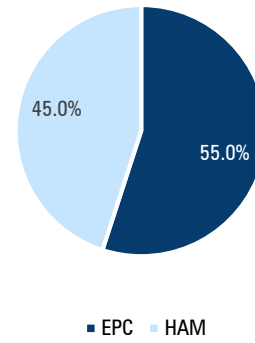
Source: Company, ICICI Direct Research

Exhibit 2: Well Diversified order book



Source: Company, ICICI Direct Research *As of FY23

Exhibit 3: Well spread between HAM/EPC



Source: Company, ICICI Direct Research *As of FY23

Asset monetisation deal inked...

H.G. Infra has 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 (translating to ~₹ 531 crore. equity value after deducting ₹ 863 crore of net debt). With ₹ 343 crore of equity investment, the valuation of deal is done at ~1.55x Price to Book.

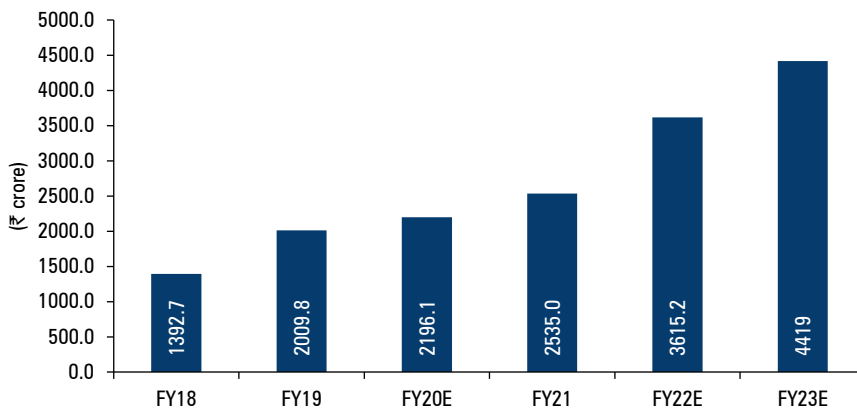
The deal is likely to be consummated in two tranches. For the first three projects with COD/PCOD in place, management expects to have NoCs (from lenders and the authority) over the next 2-3 months and realise the amount by September, 2023. For the fourth project, PCOD has already been applied and management expects to consummate the deal and receive the amount by January, 2024, after complying with the mandatory six months post COD. This deal will strengthen the balance sheet of the and will help HG to release capital for future growth and drive scalability.

Strong Revenue growth likely ahead

On the execution front, the company **expects strong execution pace to continue driven by its robust order book position**. With these, the company has **guided for ~23% YoY growth during FY24**. Further, it indicated that operating margin is likely to sustain at 15-16% going ahead with softening in input prices and better operating efficiencies.

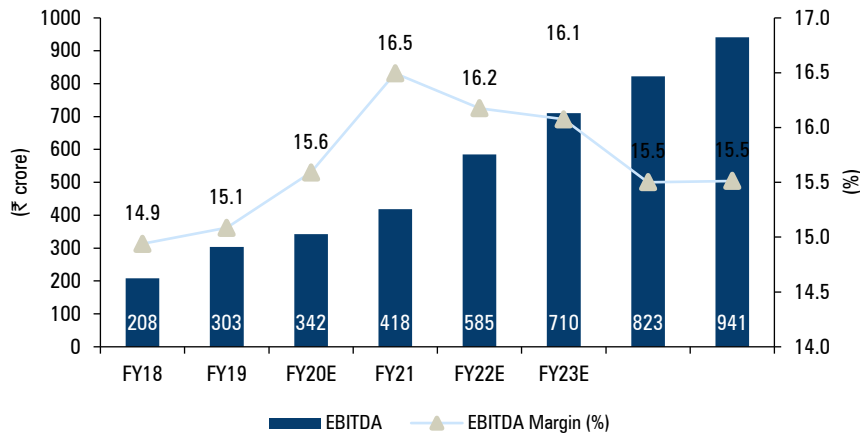
Given the robust orderbook, we expect strong revenue CAGR of ~17% over FY23-25E to ₹ 4419 crore. We expect margins to sustain at ~15.5% overall amid escalation clause and relatively benign raw material regime.

Exhibit 4: Healthy revenue growth ahead



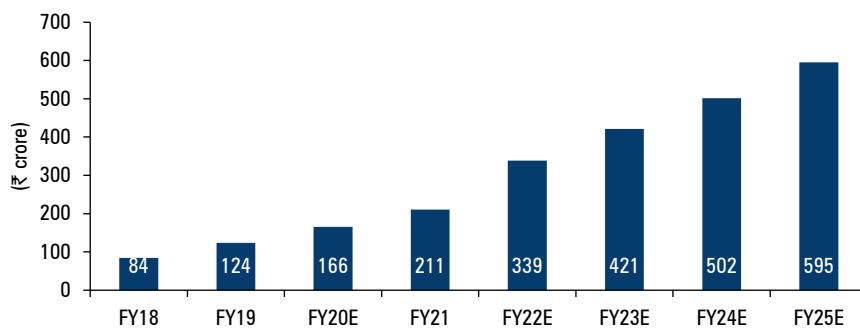
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 6: PAT trend



Source: Company, ICICI Direct Research

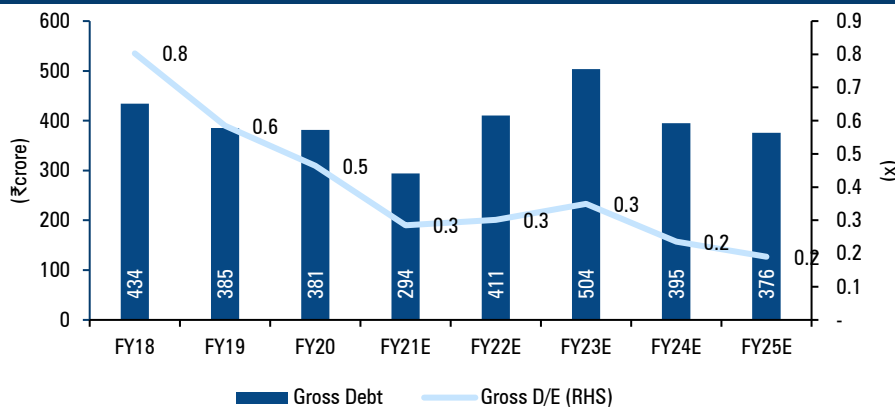
Debt to decline ahead as monetisation proceed is received...

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.

At the end of Q4FY23, its gross debt, cash and cash equivalent at the standalone level stood at ₹ 503.7 crore, ₹ 179.4 crore, respectively.

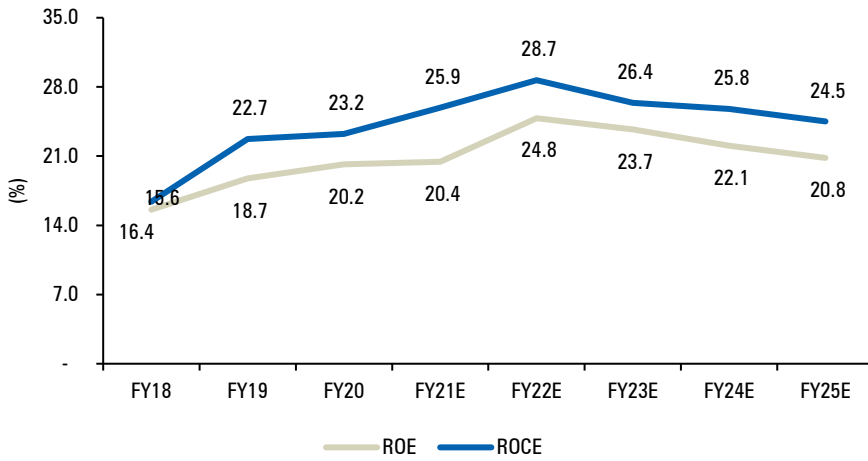
Despite equity requirement for its HAM projects, its debt is likely to be controlled, aided by healthy operating cash flow generation arising from improved profitability, better cash flow management and monetisation proceeds of HAM assets. The company expects the debt to come down to ₹ 350 crore in FY24.

Exhibit 7: Gross Debt



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 9: SoTP breakup

Particular	Valuation method	₹ /share
Standalone EPC business	11x FY25E EPS	1,005
HAM Projects	At deal value and 1x P/B for remaining assets	142
Total (Rounded off)		1,150

Source: Company, ICICI Direct Research

Key risk and concerns

Slower execution could impact revenues

Slower execution be it from the company front or any delays at client end could impact overall revenue growth potential.

Any delay in major orders ramp or payment delay

The company is undertaking Ganga Expressway order from Adani on EPC basis. Any delay could stretch working capital

Raw material volatility

We note that raw material prices have eased over the last 2-3 quarters. However, any steep volatility in raw material prices could impact margins

Increase in competitive environment

While HG Infra operates in a competitive industry, any competitive bidding led mistake could impact margins for certain projects.

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	3,615.2	4,418.5	5,306.1	6,064.0
Growth (%)	42.6	22.2	20.1	14.3
Raw Material Cost	2,868.2	3,447.5	4,181.2	4,790.6
Employee Cost	127.9	195.9	233.6	254.6
Other Expenditure	34.3	64.9	68.8	78.1
Total Operating Expenditure	3,030.4	3,708.2	4,483.6	5,123.3
EBITDA	584.8	710.3	822.5	940.7
Growth (%)	39.9	21.5	15.8	14.4
Other income	7.8	18.1	14.3	17.3
Depreciation	85.1	96.3	113.4	123.3
EBIT	507.5	632.0	723.4	834.7
Interest	52.8	63.3	52.7	38.7
PBT	454.7	568.7	670.7	796.1
Tax	115.9	147.4	169.0	200.6
Rep. PAT	338.8	421.4	501.7	595.5
Exceptional items				
Adj. Net Profit	338.8	421.4	501.7	595.5
Growth (%)	60.6	24.4	19.1	18.7
EPS (₹)	52.0	64.7	77.0	91.4

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	1,299.2	1,713.3	2,209.0	2,796.4
Networth	1,364.3	1,778.4	2,274.2	2,861.5
Loan Funds	410.6	503.7	395.1	375.6
Deferred Tax liability	(11.4)	(21.0)	(21.0)	(21.0)
Other financial liabilities	6.0	16.1	19.0	22.5
Total Liabilities	1,769.5	2,277.2	2,667.3	3,238.6
Assets				
Net Block	459.0	634.6	621.2	587.9
Capital WIP	2.2	71.9	71.9	71.9
Non-current Investments	354.5	744.7	1,184.7	1,543.7
Other non-current assets	31.7	42.1	50.5	60.6
Loans	-	-	-	-
Inventories	183.6	235.3	282.6	323.0
Trade Receivables	699.5	879.1	1,017.6	1,163.0
Cash & Bank Balances	158.5	179.4	52.3	57.5
Loans & Advances	23.3	6.2	6.2	6.2
Other current assets	456.7	694.9	825.7	985.2
Total current assets	1,521.5	1,994.9	2,184.4	2,534.8
Total Current liabilities	599.3	1,211.1	1,445.5	1,560.4
Net Current Assets	922.2	783.8	738.9	974.4
Total Assets	1,769.5	2,277.2	2,667.3	3,238.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	338.8	421.4	501.7	595.5
Depreciation	85.1	96.3	113.4	123.3
Interest	52.8	63.3	52.7	38.7
Others	(9.6)	(27.7)	(14.3)	(17.3)
Cash Flow before wc changes	467.1	553.3	653.5	740.1
Net Increase in Current Assets	(213.2)	(452.5)	(316.6)	(345.2)
Net Increase in Current Liabilities	(249.2)	504.6	213.8	90.0
Net CF from operating activities	4.7	605.5	550.7	485.0
Net purchase of Fixed Assets	(61.4)	(341.8)	(100.0)	(90.0)
Others	(100.3)	(382.5)	(434.2)	(351.8)
Net CF from Investing Activities	(161.7)	(724.4)	(534.2)	(441.8)
Proceeds from share capital	(1.4)	(0.8)	2.2	0.0
Proceeds/Repayment from Loan	116.6	210.3	(85.0)	8.8
Interest paid	(52.8)	(63.3)	(52.7)	(38.7)
Others	(5.2)	(6.5)	(8.1)	(8.1)
Net CF rom Financing Activities	57.1	139.8	(143.6)	(38.1)
Net Cash flow	(99.9)	20.9	(127.0)	5.1
Opening Cash	258.4	158.5	179.4	52.3
Closing Cash & cash equivalents	158.5	179.4	52.3	57.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Reported EPS	52.0	64.7	77.0	91.4
Cash EPS	65.0	79.4	94.4	110.3
BV per share	209.3	272.9	349.0	439.1
Revenue per share	554.7	678.0	814.2	930.5
Cash Per Share	24.3	27.5	8.0	8.8
Operating Ratios (%)				
EBITDA Margin	16.2	16.1	15.5	15.5
EBIT/ Net Sales	13.8	13.9	13.4	13.5
PAT Margin	9.4	9.5	9.5	9.8
Inventory days	18.5	19.4	19.4	19.4
Debtor days	70.6	72.6	70.0	70.0
Creditor days	44.0	61.4	60.8	53.3
Return Ratios (%)				
RoE	24.8	23.7	22.1	20.8
RoCE	28.7	26.4	25.8	24.5
RoIC	31.3	28.8	26.6	25.0
Valuation Ratios (x)				
P/E	17.6	14.1	11.9	10.0
EV / EBITDA	10.6	9.0	7.8	6.8
EV / Net Sales	1.7	1.4	1.2	1.1
Price to Book Value	4.4	3.3	2.6	2.1
Solvency Ratios (x)				
Debt / EBITDA	0.7	0.9	0.7	0.6
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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