HG Infra Engineering (HGINF)

ICICI direct Research

CMP: ₹ 296 | Target: ₹ 380 (29%) | Target Period: 12 months | BUY

April 1, 2021

Play on thriving road segment…

HG Infra Engineering (HG Infra), in a span of 18 years, has successfully emerged as an efficient road contractor led by the expertise gained over time to execute large-ticket road projects. Additionally, its scaled-up pre-qualification, expansion in different geographies and decision to bag EPC/HAM projects selectively has resulted into robust topline, bottomline growth (32.5%, 78.9% CAGR over FY16-20, respectively). Going forward, it is well on track to achieve healthy 17.8%, 20.5% revenue, PAT CAGR, respectively, in FY21-23E given remarkable execution track record, strong order book-to-sales ratio and likely continued momentum in road sector.

Scaled-up pre-qualification; road opportunities remain robust

HG Infra's pre-qualification to bid independently for NHAI's projects has improved by a whopping 8x to ₹ 2,000 crore in FY15-20. This is likely to aid the company with a) eligibility to bid for most road projects (>95% of total NHAI's awards have order value <₹ 2,000 crore), b) expanded opportunity to bag large ticket size projects and c) comparatively lower competitive intensity (as normally seen in high ticket size bidding). Additionally, enormous opportunities in the roads sector with the visibility provided by NHAI's strong bidding pipeline and NIP's envisaged ₹ 20 lakh crore of total roads investments by 2024-25 are likely to maintain the momentum.

Order book to drive growth; diversification to de-risk business

HG Infra's order book (at the end of December 2020) was healthy at ₹ 5,971 crore (2.8x TTM book-to-bill). Additionally, the company has secured four projects in Q4 worth ₹ 2,564 crore, which has strengthened its order book further, providing revenue visibility over the next couple of years. Further, incremental expected inflows of ₹ 3,500 crore, ₹ 4,000 crore in FY22E, FY23E, respectively, will buoy sustained growth thereafter. Diversifying to other infra allied businesses such as railways and irrigation, and geographically to eight different states and foray into HAM projects are likely to de-risk its business.

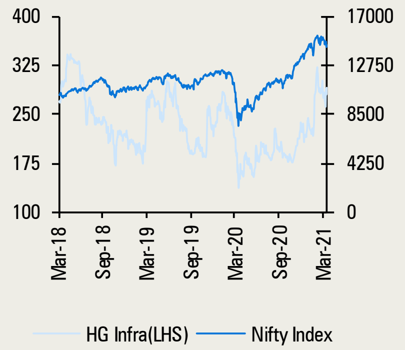
Valuations & Outlook

Healthy operating margin of 15%+, comfortable balance sheet position (net debt equity of ~0.1x at standalone levels), controlled working capital cycle (driven by apt mix of private/government projects coupled with efficient project management) and healthy return ratios remain key positive features of HG Infra. Furthermore, valuation at 7.6x FY23E standalone P/E is at a discount to peers. We initiate coverage on HG Infra with a **BUY** rating and an SoTP based target price of ₹ 380/share. **Key risks** to our call include increase in competitive intensity, which may impact ordering/margins and execution delays that may impact overall topline/profitability growth.

Particulars

Particular	Amount
Market Capitalization	1,926.1
Debt (FY20)	381.3
Cash & equivalent (FY20)	114.4
EV	2,193.0
52 week H/L (₹)	330 / 139
Equity capital	65.2
Face value	₹ 10

Price Performance



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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY21-23E
Net Sales	2,009.8	2,196.1	2,272.5	2,774.2	3,153.4	17.8%
EBITDA	303.2	342.4	364.2	432.4	493.5	16.4%
Net Profit	123.6	165.7	173.4	216.5	251.9	20.5%
EPS (₹)	19.0	25.4	26.6	33.2	38.6	
P/E (x)	15.6	11.6	11.1	8.9	7.6	
Price / Book (x)	2.9	2.3	1.9	1.6	1.3	
EV/EBITDA (x)	7.3	6.4	6.0	5.0	4.2	
RoCE (%)	22.7	23.2	20.8	21.2	20.8	
RoE (%)	18.7	20.2	17.5	18.0	17.4	

Source: ICICI Direct Research, Company

Company Background

Incorporated in 2003, HG Infra Engineering is a Jaipur (Rajasthan) based infrastructure company having primary focus on roads and allied sectors such as flyovers and bridges. Its business operations include a) providing EPC services on a fixed-sum turnkey basis and b) undertaking civil construction and related infrastructure projects on item rate, lump sum and developmental (HAM) basis. In addition to roads, the company has entered water pipeline projects in the past and is actively looking to diversify itself by targeting incremental projects in other infrastructure verticals such as railways, water infra and airport runways. Region wise, the company has commenced operations in Rajasthan and gradually expanded its footprint across other prominent states such as Maharashtra, Uttar Pradesh, Haryana, Uttarakhand, Arunachal Pradesh and Telangana. Currently, Rajasthan, Haryana, Telangana and Uttar Pradesh together contribute ~97% of its total order book.

As on December 2020, HG Infra is pre-qualified to bid independently for contract values of up to ₹ 2,000 crore. Some of its primary clients from public sector are NHAI, MoRTH, and various state PWDs while private sector clientele includes IRB Infrastructure Developers, Modern Road Makers, Tata Projects and Adani Road Transport. Government forms 69% of its total order book (worth ₹ 5,971 crore as on December 31, 2020) while the balance 31% is backed by private clients. Correspondingly, EPC projects constitute 78% of the overall order book, with the rest 22% comprising HAM projects.

Exhibit 1: Key Milestone

Timeline	Remarks
FY03-08	Company incorporated in 2003 post conversion of partnership firm "M/s Hodal Singh Giriraj Singh & Company"
	Executed first subcontract for construction of embankment: ₹ 14.9crore
	Commenced construction of portion of Yamuna Expressway: ₹ 116 crore
FY10-14	Commenced work on four-laning of 49 km on Jaipur-Tonk-Deoli section on NH-12 from IRB Infra: ₹ 257 crore
	Commenced work on four-laning of Warora - Bamni section in Maharashtra: ₹ 268 crore
	Executed construction of two separate sections of Jaipur Naguar road: ₹ 100 crore
FY15-16	Four-laning of NH-65, on Kaithal- Rajasthan border from IRB Infra: ₹ 401 crore
	Executed a ₹ 142 crore order for second coat on Jaipur-Kishangarh project
FY17-18	Conversion of company into public limited company
	Awarded seven construction projects in Maharashtra by MoRTH: ₹ 1,905 crore
	Won first HAM Project in Haryana : ₹ 606 crore
	Raised ₹ 300 crore from IPO in February 2018; Listed on BSE and NSE
FY18-21	Revenue reached ₹ 2,000+ crore with elevated operating margin of 15%+
	Secured seven HAM projects (four in Haryana and three in Telangana)
	Presence reached eight states; EPC pre-qualification above ₹ 2,000 crore

Source: ICICI Direct Research, Company

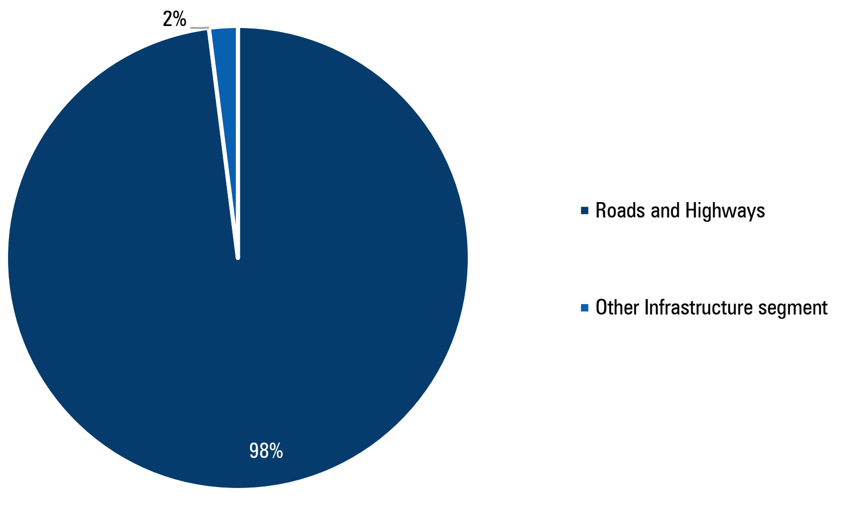
Investment Rationale

Successfully emerges as primary road developer

HG Infra was incorporated in 2003 mainly to provide EPC services in key infrastructure segments. However, the company subsequently narrowed its focus mainly to the roads and highways sector with its growing experience in the construction field and availability of better opportunities in the roads and highways sector (offering higher-ticket size projects, decent margins and timely payments). Also, its primary focus on the roads & highways segment aided it with a) desired technical expertise to undertake projects of different sizes involving varying degree of complexities, b) acquisition of required number of modern construction equipment and manpower base to supplement the growth of construction business and c) development of prudent quality control systems. With these, it has now emerged as a primary road developer having sharpened execution skills across the value chain.

Currently, the roads and highway sector contributes majority to HG Infra's revenue/order book position. However, in order to de-risk its business over the medium-to-longer term, the company is targeting opportunities beyond the roads sector, which includes a) railways: projects involving civil part of the track laying, b) water infra: water supply projects involving laying water pipeline for last mile connectivity, c) airport: construction of runways and taxiways and d) other infrastructure allied businesses. In line with these, the company has recently bagged a project worth ₹ 95 crore from NTPC to transport 26.41 lakh cubic metre of pond ash. Going forward, while we believe the roads and highways sector would continue to remain HG Infra's growth engine, other infrastructure allied sectors are likely to provide incremental business opportunities and make the company future ready in years to come.

Exhibit 2: Roads and highways sector contributes majority to overall order book*

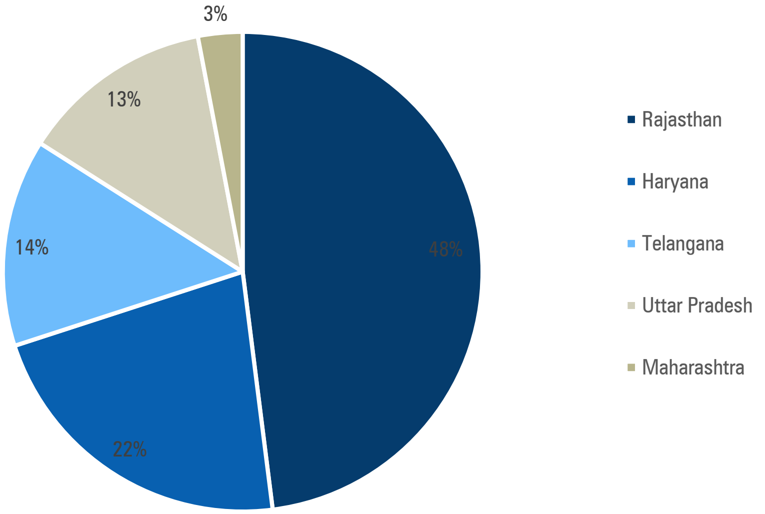


*Source: ICICI Direct Research, Company; * order book worth ₹ 5,971 crore as on 31st December 2020*

Strong foothold in Rajasthan; spreading wings to western, northern region

HG Infra has created a strong base in Rajasthan mainly backed by its established presence across the region and developed networks with vendors/labours/sub-contractors. However, to mitigate the risk of excessive dependency on home state, the company has gradually expanded its presence to eight different states. This, in turn, has aided it with enhanced opportunities, higher inflows and thereby, reduced concentration risk. Till now, the company has operated in Rajasthan, Haryana, Uttar Pradesh, Maharashtra, Uttarakhand, Haryana, Arunachal Pradesh and Telangana. Currently, Rajasthan dominates the overall order book (worth ₹ 5,971 crore as on December 2020) with 48% contribution whereas the contribution of other states such as Haryana, Telangana and Uttar Pradesh is at 22%, 14% and 13%, respectively. Going forward, HG Infra is aiming to create a strong presence in the newly-entered states as well as selectively eyeing to expand its footprint to other key western and northern states like Gujarat and Madhya Pradesh. We believe its strategy to selective expand would reap benefits with a bigger bidding pie and higher opportunities.

Exhibit 3: Successfully diversifies beyond home state – Rajasthan*



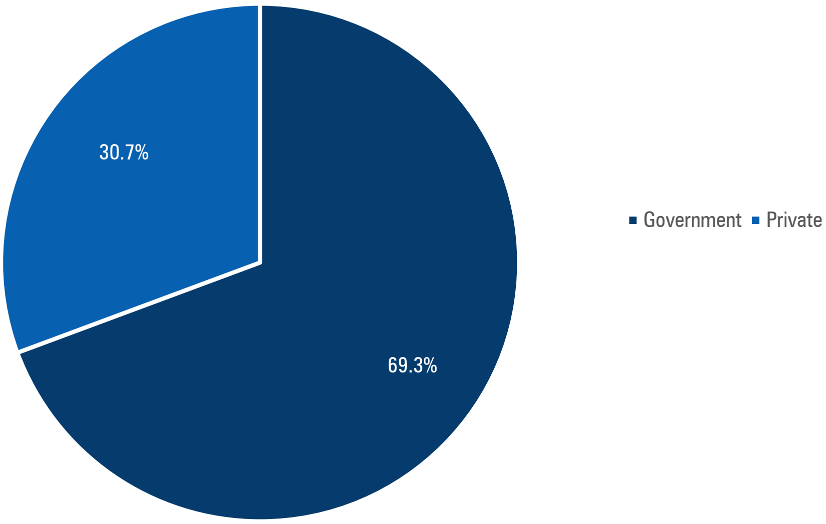
*Source: ICICI Direct Research, Company; * order book worth ₹ 5,971 crore as on 31st December 2020*

Scaled-up pre-qualification expands opportunities

Backed by heightened technical and financial capacities and robust track record in executing roads and highways project of different sizes, HG Infra's pre-qualification to bid independently for NHAI's projects has improved considerably from contract value of ₹ 250 crore in FY15 to ₹ 2,000 crore currently. We believe scaled-up pre-qualification will aid the company with a) eligibility to bid to for most roads projects (>95% of NHAI's awards have order value <₹ 2,000 crore), b) expanded opportunity to bag large ticket size projects and c) comparatively lower competitive intensity – higher value jobs attract lower number of competitors.

Currently, ~69% of the overall order book is driven by NHAI, PWDs and MoRTH while private players like IRB Infrastructure Developers and Adani's contribution is at 17% (two projects) and 14% (one project), respectively. Nevertheless, we believe dependency on sub-contracting work will reduce considerably, going forward, with expected increase in its capabilities to win and execute projects directly from government agencies.

Exhibit 4: Order book* mainly driven by government agencies



*Source: ICICI Direct Research, Company; * order book worth ₹ 5,971 crore as on 31st December 2020*

Exhibit 5: Major sub-contracting work under execution

Project Name	State	Client	Project size (₹ in crore)
Hapur bypass to Moradabad	Uttar Pradesh	IRB Infrastructure Developer	1,172.3
Mancherial to Repallewada	Telangana	Adani Road Transport	950.8
Bhilwara (Gulabpura - Chittor)	Rajasthan	Modern road makers	711.3

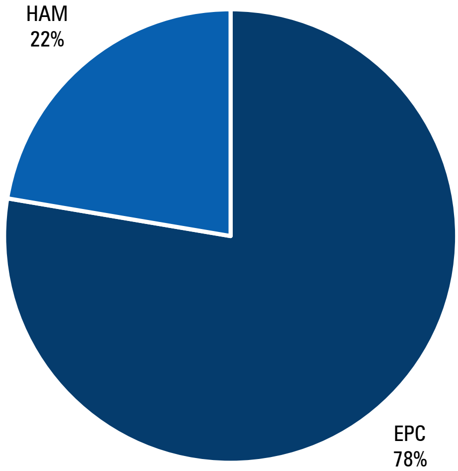
Source: ICICI Direct Research, Company

Forays into HAM of late; seven projects under portfolio now

Since hybrid annuity model (HAM) was a relatively newer mode of implementing highway projects having been introduced in 2016, HG Infra ensured initial success of the model before bidding and putting it into its kitty. Subsequently, the company started exploring HAM projects for its healthy business growth - after witnessing increased acceptance among developers and sensing higher emphasis of the authority on the HAM mode for awarding roads projects. Additionally, its scaled-up pre-qualification was enabling HG Infra to grab projects on its own without relying much on external party to meet technical and financial criteria.

In February 2018, the company bagged its first HAM project viz. Gurgaon Sohna (Rajiv Chowk) project in Haryana (bid project cost: ₹ 606 crore). Since then, the company has won seven HAM projects (including three secured post Q3FY21). We believe its decision to snap up HAM projects proved correct, ensuring healthy order inflows. Going forward, with >40% of big ticket NHAI projects expected to be under the HAM model and HG Infra prequalified to bid for projects independently, we expect the company to further add some projects to its order backlog. However, despite more hybrid annuity orders being targeted, their share in the total portfolio is unlikely to exceed 25% over the medium-to-longer term considering its higher focus on asset-light EPC projects, balance sheet strength, and risk associated with HAM vis-à-vis EPC jobs. Additionally, it is eyeing new HAM projects with 100-150 bps higher operating margin than direct EPC projects.

Exhibit 6: EPC projects contribute majority to overall order book*



*Source: ICICI Direct Research, Company; *order book worth ₹ 5,971 crore as on 31st December 2020*

Exhibit 7: Portfolio of seven HAM projects

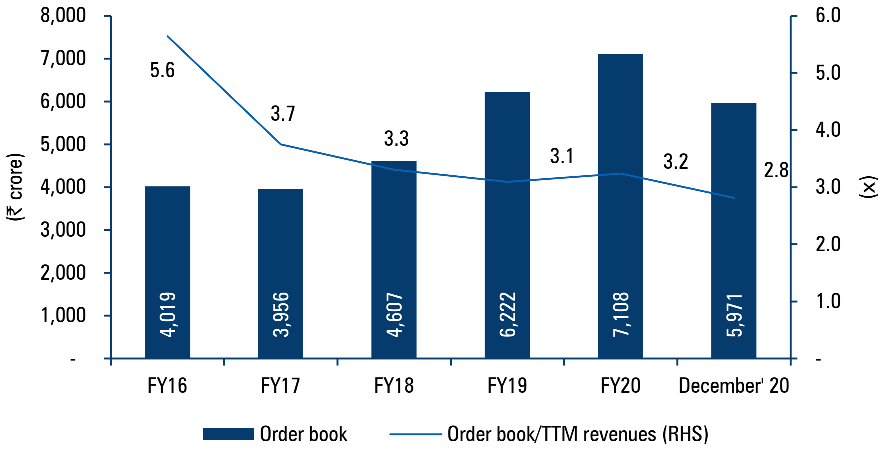
Project Name	State	Construction Period	Bid project cost (₹ in crore)
Gurgaon Sohna (Rajiv chowk)	Haryana	Feb-18	606
Rewari Ateli Mandi	Haryana	Jan-19	580
Ateli Narnaul Bypass	Haryana	Feb-19	952
Rewari-Bypass project	Haryana	Dec-19	522
Thallampadu village to Somavaram village (Package-I)	Telangana	Mar-21	772
Khammam-Devarapalle (Package -II)	Telangana	Mar-21	637
Aluru-Jakkuva section	Andhra Pradesh	Mar-21	1,060

Source: ICICI Direct Research, Company

Comfortable order book position places company in sweet spot; inflows likely to remain strong

HG Infra has successfully implemented its prudent strategy to become a mainstream road contractor – mainly aided by its vast construction experience and consistent enhancement in execution skills backed by continued investment in manpower and machineries. Additionally, a substantial improvement in the pre-qualification criteria has aided the company with higher number of awards (directly from NHAI, MoRTH) and larger ticket size projects. This has translated into robust inflows over the past few years, in-turn, resulting in a healthy order book position.

Exhibit 8: Order book position at comfortable levels



*Source: ICICI Direct Research, Company; *HG Infra has won ₹1,504 crore worth of project post Q3FY21*

HG Infra has added projects worth ₹ 3,000+ crore in FY19, FY20 each. However, its inflows were muted largely during 9MFY21 impacted by aggressive bidding (by competitors), higher competition and focus on margin protection. Despite these, its order book at the end of December 2020 was healthy at ₹ 5,971 crore (2.8x TTM revenues). During Q4FY21, the company regained its lost momentum in order inflows and secured four projects (three HAM and one project of pond ash transportation from NTPC) together worth ₹ 2,564 crore, which strengthened its order book further. Going forward, we expect robust order inflows of ₹ 3,500 crore, ₹ 4,000 crore in FY22E, FY23E, respectively, backed by robust bid-pipeline in roads and highways sector and incremental opportunity from other infra segments such as railways, metro, airports-runway and water supply.

Exhibit 9: Order inflows pick up during Q4FY21

Project	State	Mode	Client	Authority's estimated project value (₹ in crore)	Value (₹ in crore)	Premium/ Discount (%)
Transportation of 26.41 lakh cubic metre of pond ash	Telangana	EPC	NTPC	122	95	-22.4
New Greenfield highway section of NH-365BG from Thallampadu village to Somavaram village	Telangana	HAM	NHAI	656	772	17.6
New Greenfield Highway Section of NH 365 BG Khammam-Devarapalle	Telangana	HAM	NHAI	524	637	21.7
Aluru-Jakkuva section of NH-130-CD road under Raipur-Visakhapatnam Economic Corridor	Andhra Pradesh	HAM	NHAI	859	1,060	23.4

Source: ICICI Direct Research, Company

Exhibit 10: Major projects (under execution)

Project	State	Mode	Client	Order book Value* (₹ in crore)	% of total order book*
Delhi - Vadodara (Package – IV)	Rajasthan	EPC	NHAI	1,130	18.9%
Mancherial to Repallewada	Telangana	EPC	Adani Road Transport	824	13.8%
Hapur bypass to Moradabad	Uttar Pradesh	EPC	IRB Infrastructure Developer	803	13.4%
Delhi- Vadodara (Package – VIII)	Rajasthan	EPC	NHAI	765	12.8%
Delhi - Vadodara (Package – IX)	Rajasthan	EPC	NHAI	493	8.3%
Ateli Narnaul Bypass	Haryana	HAM	NHAI	466	7.8%
Rewari-Bypass project	Haryana	HAM	NHAI	399	6.7%
Rewari Ateli Mandi	Haryana	HAM	NHAI	306	5.1%
Gurgaon Sohna (Rajiv Chowk)	Haryana	HAM	NHAI	163	2.7%

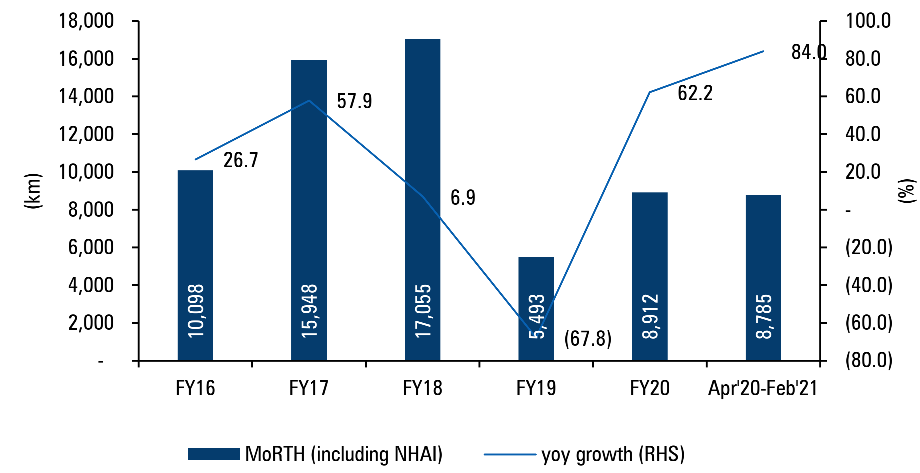
Source: ICICI Direct Research, Company; order book worth ₹5,971 crore as on 31st December 2020

Huge opportunity in road sector to drive growth, going forward

Infrastructure sector activity has been clearly growing at a decent pace – being GoI's focused area and with consistent increase in budgetary allocation. Additionally, the roads and highway segment within infra has put up a prominent show with improving construction pace and robust awardings.

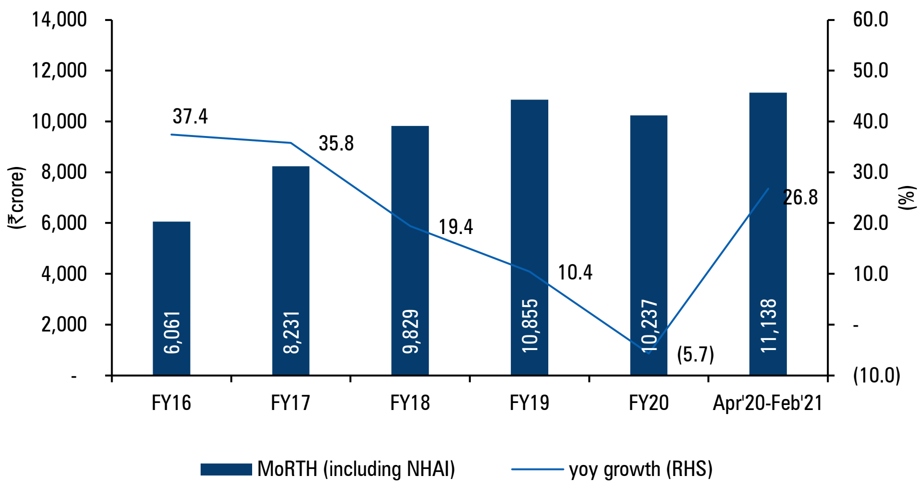
During April 2020-February 2021, MoRTH constructed 11,138 km of national highways (up from 8,785 km reported in April 2019-February 2020) despite supply chain disruptions and unavailability of labour on-site during the lockdown period. Similarly, awarding activity has improved significantly during April 2020-February 2021 tendering 8,518 km (vis-à-vis 4775 km during April 2019-February 2020). Measures such as a) shifting from milestone-based billing to monthly billing, b) releasing of retention money/performance security in proportion to execution, c) faster resolution of disputes through reconciliation and d) revision of model concession agreement (MCA) for HAM and BOT projects ensured continuance of gained momentum and safeguarded contractor's interest during uncertain times. Going forward, we expect healthy traction to continue in the near to medium term with the visibility provided by NHAI's strong bidding pipeline. Also, National Infrastructure Pipeline envisaging ₹ 111 lakh crore of total investments by 2024-25 (~₹ 20 lakh crore under roads) is likely to maintain momentum. Likewise, we expect HG Infra to be one of the prime beneficiaries and bag decent order inflows. The company is well-placed to capitalise on the large highway development opportunity. Hence, it is in a comfortable position to deliver decent growth in coming years.

Exhibit 11: Project awardings by MoRTH gain momentum during YTD FY21



Source: ICICI Direct Research, MoRTH

Exhibit 12: Road construction surpasses initial target of 11,000 km in FY21



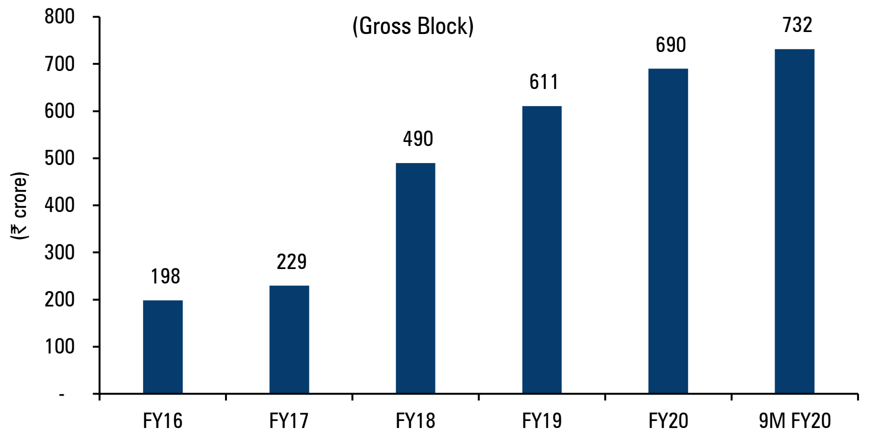
Source: ICICI Direct Research, MoRTH

Efficient business model with emphasis on higher in-house execution aiding faster execution

HG Infra's growth is largely attributable to its efficient business model wherein it follows a strategic approach from the pre-bidding stage to handing over projects. During the pre-bidding period, the company considers favourable project locations, undertakes in-detail technical surveys and feasibility studies, and analyses various design parameters and the cost involved in undertaking the project. This ensures bidding at competitive prices. After securing the project, emphasis is given to in-house execution backed by its owned equipment and on-roll manpower base, to control cost and time. Construction via its own fleet having modern equipment ensures better control over execution whereas executing projects largely with in-house employee/labours aids effective execution and timely completion of projects.

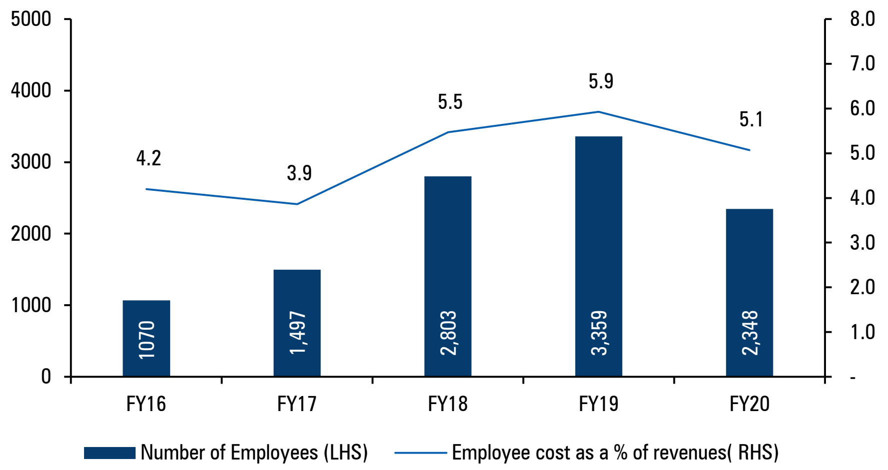
The emphasis on work through owned equipment is reflected in the increase of its fleet size from ~1,000 equipment in FY17 to >1,900 equipment in FY20. Overall, the gross block has expanded from ₹ 229 crore in FY17 to ~₹ 730 crore at the end of December 2020. Also, utilisation of owned equipment has been supported by a large employee base, which has grown from 1,497 employees in FY17 to >2,300 in FY20. We believe its large equipment fleet combined with on-roll employee base has lifted the company with steady growth. Going forward, HG Infra is likely to spend ₹ 60 crore, ₹ 75 crore on overall capex during FY21E, FY22E, respectively, which is expected to support its execution pace further.

Exhibit 13: HG Infra's investment in equipment increases consistently*



Source: ICICI Direct Research, Company

Exhibit 14: Larger number of employees aid in-house execution



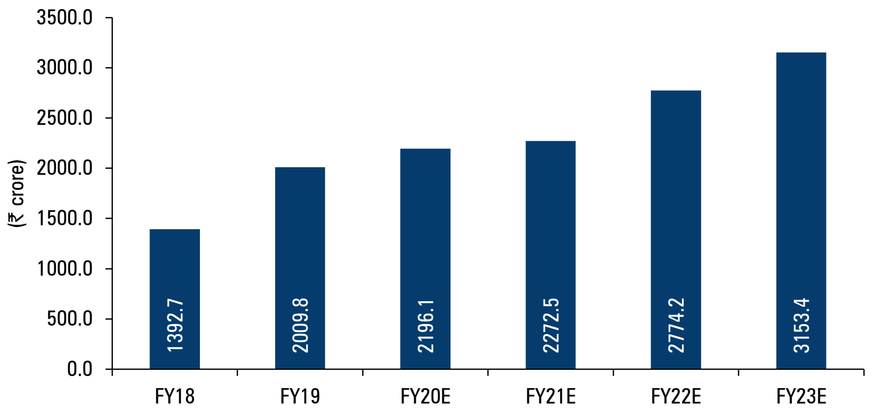
Source: ICICI Direct Research, Company

Financials

Revenues to grow at 17.8% CAGR over FY21-23E

Healthy growth in HG Infra's order book position coupled with its improved execution pace (aided by owned equipment and on-roll employee base) has translated into robust 27.6% revenue CAGR over FY17-20. Even during the uncertain 9MFY21 period marred by the Covid-19 pandemic, the company reported a mere 4.7% decline in revenues - demonstrating healthy operational capabilities. Going forward, we expect the pick-up in execution momentum to continue with a) higher executable order book - most of its HAM and EPC projects are under execution with in-place receipt of appointed dates and b) normalisation of raw material supply chain and availability of desired labours on-site. With these, the company is well placed to post 3.5% revenue growth in FY21 (expected topline in FY21: ₹ 2,272 crore) followed by healthy 17.8% revenue CAGR over FY21-23E.

Exhibit 15: Comfortable order book to translate into healthy revenue growth

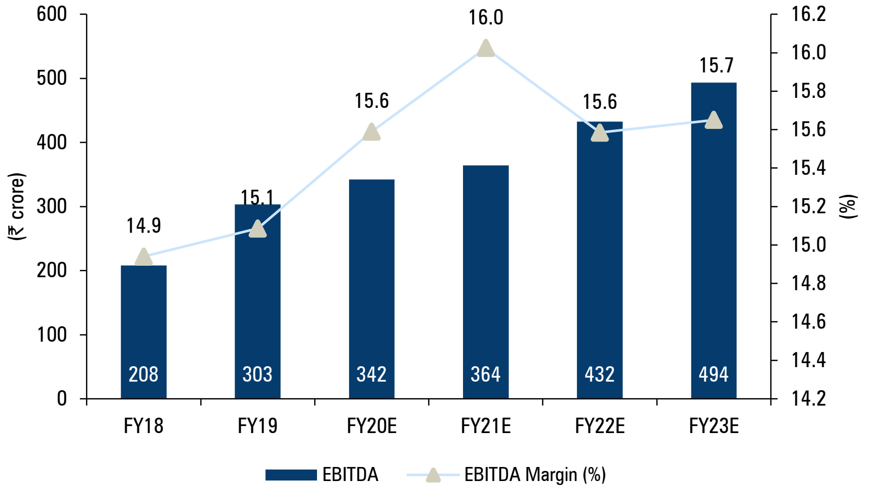


Source: ICICI Direct Research, Company

Margins to sustain at elevated levels

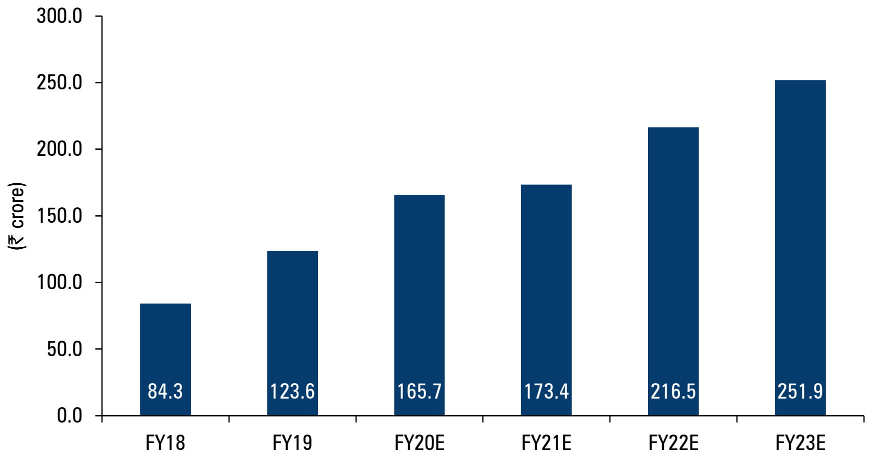
HG Infra witnessed a steady improvement in its operating margin from 11.8% in FY17 to 15.6% in FY20 mainly led by better revenue mix, declining share of subcontracting orders, improved operating efficiencies due to the standardisation of processes and an increase in in-house equipment usage. Additionally, despite operational challenges during 9MFY21 owing to Covid-19 pandemic, its operating margin improved to 16.3%. At the net level, robust revenue growth coupled with healthy operating margin has translated into healthy 45.8% PAT CAGR in FY17-20E. In 9MFY21, PAT declined by mere 1% (to ₹ 113 crore). Going forward, given higher revenue contribution from captive HAM and EPC projects, and benefits arising by execution via own equipment and labours (bringing economies of scale), we expect its operating margin to remain elevated at 15.5-16% over the next couple of years. Consequently, operating profit is likely to improve at 16.4% CAGR over FY21-23E. Also, we expect the company to register 20.6% net profit CAGR over FY21-23E (to ₹ 253 crore in FY23E) to be backed by healthy revenue growth, and elevated operational performance.

Exhibit 16: Healthy project mix to keep operating margin at elevated level



Source: ICICI Direct Research, Company

Exhibit 17: Healthy operating show to translate into robust bottomline performance

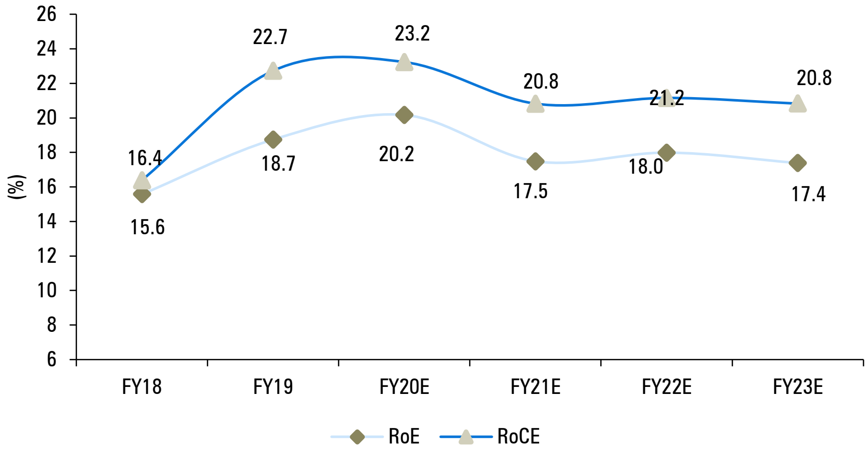


Source: ICICI Direct Research, Company

Comfortable working capital position; healthy return ratios

A healthy mix of private and government projects, well-defined strategy for project selection and efficient project management have helped HG Infra to maintain working capital days at comfortable levels. However, its working capital days has increased in the recent years mainly due to money stuck in MoRTH/Rajasthan based projects. Recently, the company secured the receipt of provisional completion certificate for such projects due to which its dues are likely to get released soon, aiding working capital days to normalise, going forward. Additionally, we expect its return ratios to remain healthy (FY23E- RoE: 18.9%, RoCE: 22.4%) to be backed by robust earnings growth, well-managed balance sheet position, comfortable working capital, and healthy fixed asset turnover.

Exhibit 18: Return ratios likely to remain healthy



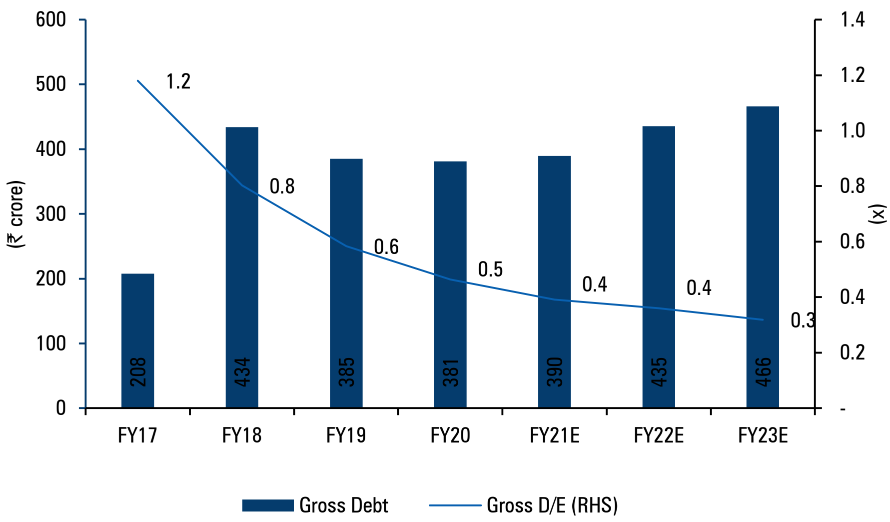
Source: ICICI Direct Research, Company

Balance sheet to remain lean despite equity commitments

HG Infra's balance sheet has remained quite 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 December 2020, its gross debt, net debt at the standalone level were at ₹ 260 crore, ₹ 112 crore, respectively (down from ₹ 434 crore of gross debt reported in FY18-end). This is despite capex of ₹ 250 crore and equity infusion of ₹ 198 crore in the said period.

Going forward, the company has an equity requirement of ₹ 150 crore mainly towards four under-execution HAM projects and expects to spend ₹ 160 crore towards asset creation. Despite these, we expect its debt to decline to ₹ 135 crore over FY21-23E to be aided by healthy operating cash flow generation arising from healthy profitability. Also, regarding monetising of its hybrid annuity assets, the company has already initiated discussions with potential buyers and is making some headway. HG Infra is optimistic of its chances to monetise the three older hybrid annuity assets at the estimated equity valuation of ~1.25x P/BV.

Exhibit 19: Balance sheet at comfortable level



Source: ICICI Direct Research, Company

Key Risk & Concerns

Increased competitive intensity may impact margins/order inflows

With the relaxation in eligibility norms by MoRTH, NHAI for bidding for roads project, competitive intensity in the HAM and EPC projects has got immensely amplified recently. As per industry sources, the number of players in the EPC and HAM projects has increased to 17-20 and 13-15 bidders, respectively. With this, we believe aggressive bidding (by competitors) and higher competition may result in lower inflows and moderation in margins, going forward.

Heavily dependent on roads and highways sector

HG Infra's order book is mainly built on the roads and highways sector and is largely dependent on certain governmental authorities such as NHAI, MoRTH and state PWDs. However, it has entered water supply projects in Rajasthan and is looking to foray into airport runways, railways and water treatment & sewerage related projects. Any slowdown in the awarding activity of road projects could impact the company's performance.

Higher exposure in select states

While the company carries out business in various states of India, its project portfolio has historically been concentrated in the northern and western states. Currently, Rajasthan dominates the order book with 48% contribution whereas the contribution of other states such as Haryana, Telangana and Uttar Pradesh is at 22%, 14% and 13%, respectively. Thus, any regional slowdown in construction activity, or its limitation to implement the strategy to cluster projects may affect the company's performance.

Execution risk

Delays in getting necessary approvals or hindrance in getting requisite land on time may delay its project execution pace, which may affect the company's financials adversely.

Valuation & Outlook

HG Infra has successfully demonstrated its capabilities by emerging as a primary road developer. Further, a) its healthy order book position, b) strong execution capabilities, c) elevated operating margin, d) well managed balance sheet, and e) healthy return ratios place the company in a sweet spot. Additionally, better-than-expected order inflows and monetisation of HAM assets can act as a positive trigger. At the CMP, the stock is trading at 7.6x standalone FY23E P/E.

We initiate coverage on the stock with a **BUY** rating and a target price of ₹ 380/share on SOTP basis. We value the EPC business at ₹ 348/share based on 9x FY23E earnings and HAM projects at ₹ 30/share on P/BV basis.

Exhibit 20: Valuation

Particular	Valuation method	₹ /share
Standalone EPC business	9x FY23E EPS	348
HAM Projects	1x P/B	30
Total (Rounded off)		380
CMP		296
Potential upside (%)		29

Source: ICICI Direct Research

Exhibit 21: Peer Comparison

Company	MCap (₹ crore)	Revenue	EBITDA	PAT	EBITDA (%)	ROE (%)	ROCE (%)	Net D/E (x)	P/E
		(%) CAGR FY21-23E			FY23E				
PNC Infratech	6606	18.7	20.9	19.0	14.0	13.4	20.9	0.1	12.8
KNR Cons	5957	18.4	18.5	22.8	19.5	15.3	21.0	0.1	15.3
NCC	4946	23.9	26.0	48.5	12.0	9.9	16.9	0.3	8.0
HG Infra	1926	17.8	16.4	20.5	15.7	17.4	20.8	0.1	7.6

Source: ICICI Direct Research, Company, BSE

Financial Summary

Exhibit 22: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	**2,196.1**	**2,272.5**	**2,774.2**	**3,153.4**
Growth (%)	9.3	3.5	22.1	13.7
Raw Material Cost	1,706.4	1,765.7	2,169.4	2,462.8
Employee Cost	111.4	101.8	119.6	136.1
Other Expenditure	36.0	40.8	52.9	61.0
Total Operating Expenditure	1,853.8	1,908.3	2,341.9	2,659.8
EBITDA	**342.4**	**364.2**	**432.4**	**493.5**
Growth (%)	12.9	6.4	18.7	14.1
Other income	13.7	9.6	10.8	13.8
Depreciation	75.6	85.3	95.1	106.7
EBIT	280.4	288.5	348.0	400.6
Interest	52.4	56.6	58.6	63.9
PBT	228.1	231.9	289.4	336.7
Tax	62.3	58.4	72.9	84.9
Rep. PAT	**165.7**	**173.4**	**216.5**	**251.9**
Exceptional items				
Adj. Net Profit	**165.7**	**173.4**	**216.5**	**251.9**
Growth (%)	34.1	4.7	24.8	16.4
EPS (₹)	**25.4**	**26.6**	**33.2**	**38.6**

Source: ICICI Direct Research

Exhibit 23: Cash Flow Statement ₹ crore

(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	165.7	173.4	216.5	251.9
Depreciation	75.6	85.3	95.1	106.7
Interest	52.4	56.6	58.6	63.9
Others	(14.0)	(9.6)	(10.8)	(13.8)
Cash Flow before wc changes	279.7	305.7	359.4	408.7
Net Increase in Current Assets	(379.1)	24.4	(264.5)	(241.3)
Net Increase in Current Liabilities	341.9	(35.2)	152.1	111.1
Net CF from operating activities	**242.5**	**294.9**	**247.1**	**278.4**
Net purchase of Fixed Assets	(107.2)	(60.5)	(75.7)	(85.8)
Others	(61.5)	(170.8)	(84.0)	(40.5)
Net CF from Investing Activities	**(168.7)**	**(231.3)**	**(159.6)**	**(126.3)**
Proceeds from share capital	0.6	(0.0)	(0.0)	(0.0)
Proceeds/Repayment from Loan	(3.9)	8.2	45.8	31.0
Interest paid	(52.4)	(56.6)	(58.6)	(63.9)
Others	(3.9)	(3.3)	(4.9)	(6.5)
Net CF rom Financing Activities	**(59.6)**	**(51.7)**	**(17.7)**	**(39.4)**
Net Cash flow	**14.2**	**11.9**	**69.7**	**112.7**
Opening Cash and Cash Equivalent	100.2	114.4	126.4	196.1
Closing Cash & cash equivalents	**114.4**	**126.4**	**196.1**	**308.8**

Source: ICICI Direct Research

Exhibit 24: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	756.4	926.6	1,138.2	1,383.6
Networth	821.6	991.8	1,203.4	1,448.7
Loan Funds	381.3	389.5	435.3	466.3
Deferred Tax liability	(8.7)	(8.7)	(8.7)	(8.7)
Other financial liabilities	12.2	12.5	14.5	16.8
Total Liabilities	**1,206.5**	**1,385.1**	**1,644.4**	**1,923.1**
Assets				
Net Block	482.4	457.7	438.2	417.2
Capital WIP	11.1	11.1	11.1	11.1
Non-current Investments	90.8	270.4	359.4	409.4
Othe non-current assets	25.1	26.0	31.7	36.1
Loans	-	-	-	-
Inventories	105.5	130.7	152.0	172.8
Trade Receivables	811.1	747.1	874.1	967.6
Cash & Bank Balances	114.4	126.4	196.1	308.8
Loans & Advances	7.4	7.4	7.4	7.4
Other current assets	411.8	426.1	542.4	669.4
Total current assets	1,450.3	1,437.8	1,772.0	2,126.1
Total Current liabilities	853.3	817.8	968.0	1,076.7
Net Current Assets	596.9	620.0	804.0	1,049.4
Total Assets	**1,206.5**	**1,385.1**	**1,644.4**	**1,923.1**

Source: ICICI Direct Research

Exhibit 25: Ratio Analysis ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Reported EPS	25.4	26.6	33.2	38.6
Cash EPS	37.0	39.7	47.8	55.0
BV per share	126.1	152.2	184.6	222.3
Revenue per share	337.0	348.7	425.7	483.9
Cash Per Share	17.6	19.4	30.1	47.4
Operating Ratios (%)				
EBITDA Margin	15.6	16.0	15.6	15.7
EBIT/ Net Sales	12.1	12.3	12.2	12.3
PAT Margin	7.5	7.6	7.8	8.0
Inventory days	17.5	21.0	20.0	20.0
Debtor days	134.8	120.0	115.0	112.0
Creditor days	103.5	93.0	89.0	86.0
Return Ratios (%)				
RoE	20.2	17.5	18.0	17.4
RoCE	23.2	20.8	21.2	20.8
RoIC	24.8	22.5	23.6	24.2
Valuation Ratios (x)				
P/E	11.6	11.1	8.9	7.6
EV / EBITDA	6.4	6.0	5.0	4.2
EV / Net Sales	1.0	1.0	0.8	0.7
Price to Book Value	2.3	1.9	1.6	1.3
Solvency Ratios (x)				
Debt / EBITDA	1.1	1.1	1.0	0.9
Net Debt / Equity	0.3	0.3	0.2	0.1

Source: ICICI Direct Research

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Sell: <-15%

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