

Heathy execution; strong growth outlook...

About the stock: HG Infra Engineering 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 the railways, airport and water infra segment.

- Reported 28.8% revenue CAGR during FY16-21; operating margin improved consistently from 11.0% in FY16 to 16.2% in FY21
- Proficient management, net debt free, superior return ratio (RoCE, RoE: >20%).

Q1FY22 Results: HG Infra reported a healthy performance in Q1FY22.

- Standalone revenue improved 206% YoY to ₹ 911.7 crore, albeit on the washout base of Q1FY21. On a QoQ basis, topline declined merely by 11.3% aided by a) comfortable order book position and b) pick-up in execution with receipts of appointed date in most projects
- EBITDA was at ₹ 148.5 crore, up 202.3% YoY, with margin at 16.3%
- PAT was at ₹ 88.8 crore (up ~6x YoY)

What should investors do? HG Infra's share price has grown 114% over the past three years (from ~₹ 267 in March 2018 to ₹ 571 levels in August 2021).

- We maintain BUY rating on the company

Target Price and Valuation: We value HG Infra at a target price of ₹ 675

Key triggers for future price performance:

- It is likely to be one of the major beneficiary of thriving roads, railways and irrigation segments. Healthy order inflows to aid its order book position
- Strong order book position, receipt of appointed date in most projects and execution pick-up to translate into 22.4% topline CAGR over FY21-23E
- Current order mix with built-in raw material price variation clauses in most of its contracts provides margin sustainability at ~15.5-16%
- Double-digit return ratios and lean balance sheet position

Alternate Stock Idea: Besides HG Infra, we like NCC in the infra space.

- Play on execution pick-up and improving balance sheet
- BUY with a target price of ₹ 105/share

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	2,009.8	2,196.1	2,527.5	28.8%	3,146.0	3,788.8	22.4%
EBITDA	303.2	342.4	410.7	39.4%	496.5	606.9	21.6%
Net Profit	123.6	165.7	211.0	143.2%	276.4	343.9	27.7%
EPS (₹)	19.0	25.4	32.4		42.4	52.8	
P/E (x)	30.1	22.4	17.6		13.5	10.8	
Price / Book (x)	5.6	4.5	3.6		2.9	2.3	
EV/EBITDA (x)	13.2	11.6	9.0		7.2	5.8	
RoCE (%)	22.7	23.2	27.3		26.9	26.9	
RoE (%)	18.7	20.2	20.4		21.2	21.0	

Source: Company, ICICI Direct Research



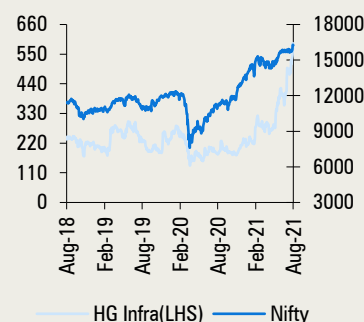
Particulars

Particular	Amount
Market Capitalization	3,718.3
Debt (FY21)	226.7
Cash & equivalent (FY21)	258.4
EV	3,686.6
52 week H/L (₹)	630 / 174
Equity capital	65.2
Face value	₹ 10

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	74.0	74.0	74.5	74.5
DII	18.8	18.1	16.7	14.9
FII	0.5	0.4	0.1	0.5
Other	6.7	7.4	8.7	10.1

Price Chart



Key Risks

Key Risk: (i) Weaker-than-expected execution; (ii) Low order inflows

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Key business highlight and outlook

Healthy order book position; execution pace to remain robust

HG Infra's order book was at ₹ 6,144 crore (~2x book to TTM revenues). Additionally, it has secured a project in Delhi in EPC mode worth ₹ 1,393.1 crore post June 2021, which has strengthened its order book further. Going forward, the management has guided for order inflows of ₹ 5,000- 6,000 crore during the rest of FY22, driven by a strong order pipeline in roads segment and growing opportunities in the other infrastructure verticals such as railways, water and airports. On the execution front, the strong momentum is likely to continue with a) its healthy order book position, b) receipt of appointed date in most projects and c) desired level of labour/raw material on-site. With these, the management has guided for ₹ 3,200+ crore of topline in FY22E. Also, operating margin is likely to sustain at > 15.5%, going ahead.

Balance sheet to remain lean despite equity commitments

HG Infra's balance sheet has remained lean backed by its prudent strategy to mainly focus on an asset light business model and efficient manage working capital. At the end of Q1FY22, its gross debt/cash and cash equivalent at the standalone level was at ₹ 307.6 crore, ₹ 150.4 crore, respectively. Going forward, it has an equity requirement of ~₹ 150 crore, ~₹ 200 crore, ~₹ 100 crore to be spent during FY22, FY23, FY24, respectively, towards already secured HAM projects. Despite these, we expect its debt to remain at comfortable levels with healthy operating cash flow generation arising from improved profitability and better cash flow management. Also, monetisation of HAM assets would increase its ability to bag newer projects.

Key conference call takeaways

- Rajasthan comprised 37% of the order book, followed by Telangana (30%), Andhra Pradesh (12%), Haryana (8%), Uttar Pradesh (10%), and Maharashtra (3%)
- HG Infra has submitted its bids for roads segment amounting to ₹ 10,500 crore (HAM: EPC - 57%:43%). Also, the company is targeting orders from railways segment in order to diversify itself and has submitted its bid worth ₹ 1,300 crore
- Among seven major HAM projects, HG Infra has completed a) 87% physical execution in Gurgaon-Nuh (Rajiv Chowk), b) 72% in Rewari Ateli Mandi, c) 75% in Narnual Bypass and d) 19% in Rewari Bypass package-4. In the newly won three HAM projects, the company is in different stages of financial closure and expects receipt of appointed date by Q4FY22
- HG Infra is in discussions with potential buyers regarding monetisation of its HAM assets. While considerations are in initial stages, the management expects a positive development over next six to nine months on the monetisation front
- The company has incurred ~₹ 29 crore gross towards capex during Q1FY22 and has guided for ~₹ 70 crore during FY22E
- HG Infra has approved raising of funds by way of issuance of equity shares/ equity linked securities of an amount aggregating up to ₹ 300 crore through permissible modes such as private placement preferential issue, QIP and FPO

Considering its healthy executable order book position and robust execution skill, we expect execution momentum to continue in the near to medium term. Additionally, elevated operating margins, strong return ratios and lean balance sheet position remain key positive. Given the superlative execution, we raise our FY22, FY23 earnings estimates by 6%, 19%, respectively. We maintain BUY rating with revised a TP of ₹ 675/share (based on SoTP based valuation). We value core business at 12x FY23 P/E and HAM projects at 1x equity invested.

Peer Comparison

HG Infra has a strong footprint in the western region of Rajasthan and Haryana. However, it has successfully diversified geographically itself by bagging orders in the southern region backed by its scaled-up pre-qualification and robust implementation capabilities. Efficient business model with emphasis on higher in-house execution, ability to deliver projects on-time and elevated margins differentiates it among peers.

Exhibit 1: Variance Analysis

Particulars	Q1 FY22	Q1 FY22E	Q1 FY21	Q4 FY21	YoY (%)	QoQ (%)	Comments
Total Operating Income	911.7	696.5	297.9	1,027.8	206.0	-11.3	Pick-up execution led to topline beat
Other Income	3.3	4.0	2.7	7.7	24.5	-57.4	
Consumption of raw materials	723.7	551.6	222.3	821.7	225.5	-11.9	
Employee benefit expenses	31.0	29.6	22.3	29.6	38.9	4.7	
Other Expenses	8.5	7.0	4.1	10.0	106.0	-14.9	
EBITDA	148.5	108.3	49.1	166.5	202.3	-10.8	
EBITDA Margin (%)	16.3	15.5	16.5	16.2	-20 bps	9 bps	Better project mix supported margin performance
Depreciation	-20.3	-23.4	-19.5	-22.6	4.3	-10.1	
Interest	-11.9	-17.0	-12.2	-19.2	-2.3	-38.2	
PBT	119.7	71.9	20.1	132.4	494.1	-9.6	
Taxes	-30.8	-18.1	-5.0	-34.8	510.5	-11.3	
PAT	88.8	53.8	15.1	97.7	488.7	-9.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY20	FY21	FY22E			FY23E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	2,196.1	2,527.5	3,095.6	3,146.0	1.6	3,464.7	3,788.8	9.4	Reliagn estimates post Q1
EBITDA	342.4	410.7	483.4	496.5	2.7	542.5	606.9	11.9	
EBITDA Margin (%)	15.6	16.2	15.6	15.8	17 bps	15.7	16.0	36 bps	
PAT	165.7	211.0	260.9	276.4	5.9	289.1	343.9	19.0	
Diluted EPS (₹)	25.4	32.4	40.0	42.4	5.9	44.4	52.8	19.0	

Source: Company, ICICI Direct Research

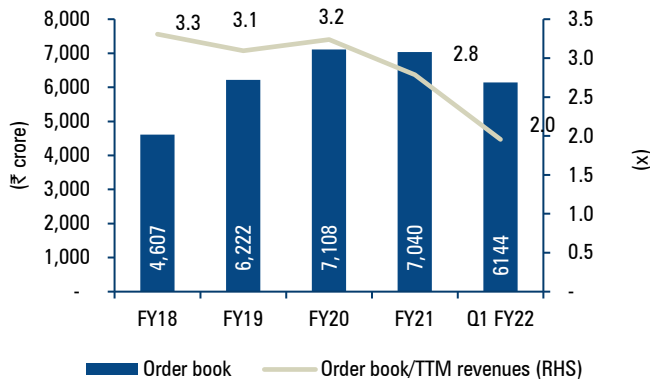
Exhibit 3: Valuation Table

Particular	Valuation method	₹ /share
Standalone EPC business	12x FY23E EPS	633
HAM Projects	1x P/B	41
Total (Rounded off)		675
CMP		571
Potential upside (%)		18%

Source: Company, ICICI Direct Research

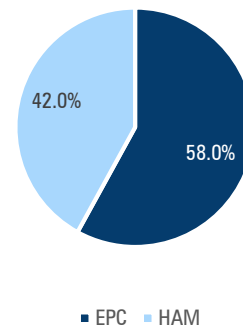
Company Analysis

Exhibit 4: Order book trend



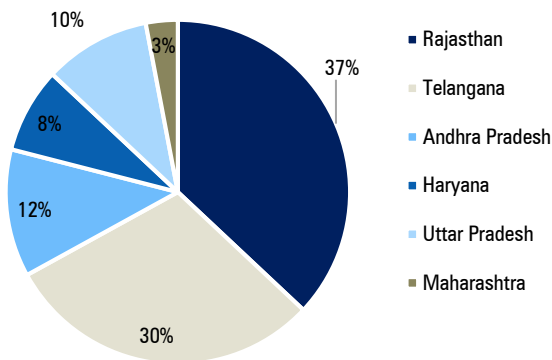
Source: Company, ICICI Direct Research

Exhibit 5: Order book composition



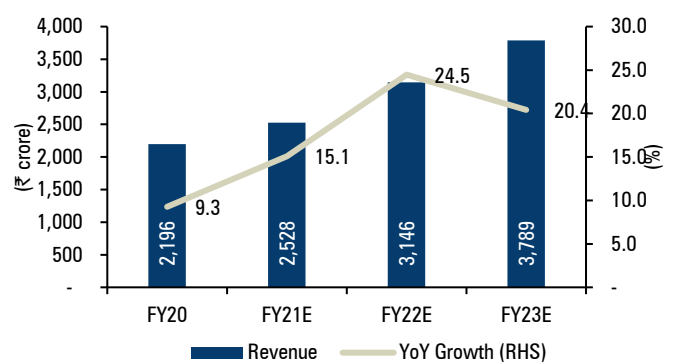
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



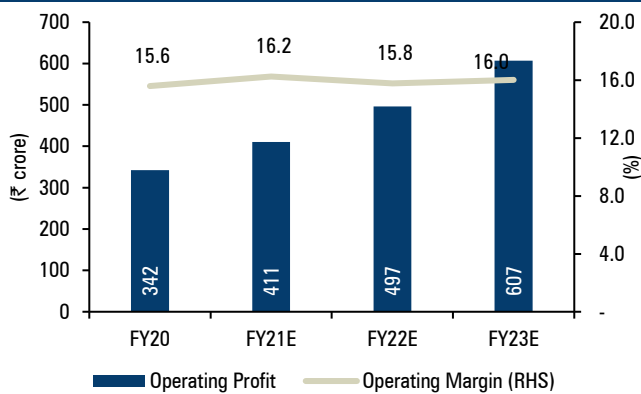
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



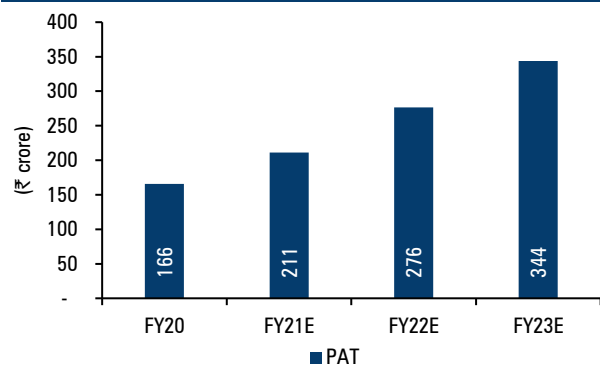
Source: Company, ICICI Direct Research

Exhibit 8: Annual EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 9: Annual PAT trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	2,196.1	2,527.5	3,146.0	3,788.8
Growth (%)	9.3	15.1	24.5	20.4
Raw Material Cost	1,706.4	1,980.8	2,491.6	2,993.2
Employee Cost	111.4	109.3	119.6	139.9
Other Expenditure	36.0	26.7	38.3	48.8
Total Operating Expenditure	1,853.8	2,116.8	2,649.5	3,181.9
EBITDA	342.4	410.7	496.5	606.9
Growth (%)	12.9	19.9	20.9	22.2
Other income	13.7	15.4	17.0	18.7
Depreciation	75.6	84.4	91.0	99.4
EBIT	280.4	341.7	422.5	526.2
Interest	52.4	59.6	53.1	66.4
PBT	228.1	282.1	369.5	459.8
Tax	62.3	71.2	93.1	115.9
Rep. PAT	165.7	211.0	276.4	343.9
Exceptional items				
Adj. Net Profit	165.7	211.0	276.4	343.9
Growth (%)	34.1	27.3	31.0	24.5
EPS (₹)	25.4	32.4	42.4	52.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	165.7	211.0	276.4	343.9
Depreciation	75.6	84.4	91.0	99.4
Interest	52.4	59.6	53.1	66.4
Others	(14.0)	(16.3)	(17.0)	(18.7)
Cash Flow before wc changes	279.7	338.7	403.4	491.1
Net Increase in Current Assets	(379.1)	186.0	(321.3)	(320.4)
Net Increase in Current Liabilities	341.9	56.2	311.9	242.8
Net CF from operating activities	242.5	580.9	394.0	413.5
Net purchase of Fixed Assets	(107.2)	(75.7)	(70.3)	(79.8)
Others	(61.5)	(146.6)	(139.3)	(192.4)
Net CF from Investing Activities	(168.7)	(222.4)	(209.6)	(272.2)
Proceeds from share capital	0.6	2.9	0.0	(0.0)
Proceeds/Repayment from Loan	(3.9)	(154.6)	49.7	47.6
Interest paid	(52.4)	(59.6)	(53.1)	(66.4)
Others	(3.9)	(3.3)	(5.2)	(6.5)
Net CF rom Financing Activities	(59.6)	(214.5)	(8.6)	(25.3)
Net Cash flow	14.2	144.0	175.9	115.9
Opening Cash and Cash Equivalent	100.2	114.4	258.4	434.3
Closing Cash & cash equivalents	114.4	258.4	434.3	550.2

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	756.4	967.0	1,238.2	1,575.6
Networth	821.6	1,032.2	1,303.4	1,640.8
Loan Funds	381.3	226.7	276.4	324.0
Deferred Tax liability	(8.7)	(9.5)	(9.5)	(9.5)
Other financial liabilities	12.2	2.6	3.2	4.0
Total Liabilities	1,206.5	1,252.0	1,573.4	1,959.2
Assets				
Net Block	482.4	483.1	462.3	442.7
Capital WIP	11.1	1.8	1.8	1.8
Non-current Investments	90.8	261.2	413.4	619.4
Othe non-current assets	25.1	16.8	20.9	26.0
Loans	-	-	-	-
Inventories	105.5	168.0	189.6	207.6
Trade Receivables	811.1	657.5	861.9	1,038.0
Cash & Bank Balances	114.4	258.4	434.3	550.2
Loans & Advances	7.4	5.0	5.0	5.0
Other current assets	411.8	319.3	414.6	541.0
Total current assets	1,450.3	1,408.2	1,905.5	2,341.8
Total Current liabilities	853.3	919.2	1,230.5	1,472.5
Net Current Assets	596.9	489.1	675.0	869.3
Total Assets	1,206.5	1,252.0	1,573.4	1,959.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	25.4	32.4	42.4	52.8
Cash EPS	37.0	45.3	56.4	68.0
BV per share	126.1	158.4	200.0	251.8
Revenue per share	337.0	387.8	482.7	581.4
Cash Per Share	17.6	39.7	66.6	84.4
Operating Ratios (%)				
EBITDA Margin	15.6	16.2	15.8	16.0
EBIT/ Net Sales	12.1	12.9	12.9	13.4
PAT Margin	7.5	8.3	8.8	9.1
Inventory days	17.5	24.3	22.0	20.0
Debtor days	134.8	95.0	100.0	100.0
Creditor days	103.5	72.0	82.0	81.0
Return Ratios (%)				
RoE	20.2	20.4	21.2	21.0
RoCE	23.2	27.3	26.9	26.9
RoIC	24.8	33.0	35.8	36.2
Valuation Ratios (x)				
P/E	22.4	17.6	13.5	10.8
EV / EBITDA	11.6	9.0	7.2	5.8
EV / Net Sales	1.8	1.5	1.1	0.9
Price to Book Value	4.5	3.6	2.9	2.3
Solvency Ratios (x)				
Debt / EBITDA	1.1	0.6	0.6	0.5
Net Debt / Equity	0.3	(0.0)	(0.1)	(0.1)

Source: Company, ICICI Direct Research

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Sell: <-15%



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