

CMP: ₹ 542

Target: ₹ 700 (29%)

Target Period: 12 months

BUY

November 13, 2022

Mixed bag performance...

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 into railways, airport and water infra segment.

- Reported 27.9% revenue CAGR over FY17-22 with improved operating margin
- Prudent management, lean balance sheet position, superior return ratios

Q2FY23 Results: HG Infra reported a mixed bag performance during Q2FY23.

- Standalone revenue improved 0.3% YoY to ₹ 752.1 crore impacted by delay in receipts of appointed date in certain projects and prolonged monsoons
- EBITDA margin was elevated at 16.1% (down 19 bps YoY) aided by softening in commodity prices and better project mix. Effectively, EBITDA at ₹ 120.8 crore, was down 0.9% YoY
- PAT de-grew 7.5% YoY at ₹ 64.6 crore

What should investors do? HG Infra's share price has doubled over the past four years (from ~₹ 270 in March 2018 to ₹ 542 levels in November 2022).

- We maintain **BUY** rating as we expect execution pace to pick up considerably in the near-to-medium term. Also, margins are likely to improve here on gradually with softened input prices and better project mix

Target Price and Valuation: We value HG Infra at a target price of ₹ 700

Key triggers for future price performance:

- HG Infra is likely to be one of the major recipients of thriving roads, railways and water supply segments. Healthy inflows to aid its order book position
- Strong order book position, receipt of appointed date in most of its projects, and execution pick-up to translate into 16.6% topline CAGR over FY22-24E
- 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 KNR Constructions in infra space.

- Play on strong execution and lean balance sheet
- BUY with a target price of ₹ 310/share

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	2,009.8	2,196.1	2,535.0	3,615.2	27.9%	4,227.6	4,912.6	16.6%
EBITDA	303.2	342.4	418.1	584.8	36.3%	653.6	763.9	14.3%
EBITDA Margin (%)	15.1	15.6	16.5	16.2		15.5	15.5	
Net Profit	123.6	165.7	211.0	338.8	44.7%	380.0	438.7	13.8%
EPS (₹)	19.0	25.4	32.4	52.0		58.3	67.3	
P/E (x)	28.6	21.3	16.7	10.4		9.3	8.1	
EV/EBITDA (x)	12.6	11.1	8.5	6.5		6.1	5.2	
RoCE (%)	22.7	23.2	25.9	28.7		25.1	24.0	
RoE (%)	18.7	20.2	20.4	24.8		21.9	20.2	

Source: Company, ICICI Direct Research



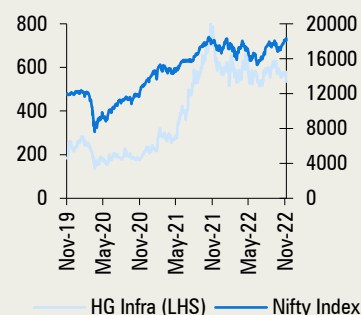
Particulars

Particular	Amount
Market Capitalization	3,532.3
Total Debt (₹ crore)	410.6
Cash (₹ crore)	158.5
EV (₹ crore)	3,784.4
52 week H/L (₹)	744 / 481
Equity capital	65.2
Face value	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	74.5	74.5	74.5	74.5
DII	12.3	12.5	12.5	12.2
FII	1.3	0.7	0.6	0.6
Other	11.9	12.3	12.4	12.6

Price Chart



Key Risks

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

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Key business highlight and outlook

Order book robust at 2.9x revenues; provides healthy visibility

As on September 30, 2022, HG Infra's order book was robust at ₹ 10,851.6 crore (2.9x book to TTM revenues). Overall, the company has guided for order inflows of ~₹ 9,000-10,000 crore during FY23 (already secured ganga expressway project amounting to ~₹ 4,500 crore in Q1FY23), to be 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 significant ramp up in execution from Q3 FY23 onwards to be driven by a) its robust order book position, b) receipt of appointed date in most of its projects, and c) no major hindrances from external factors such as rains, etc. With these, the company has guided for 25% YoY growth in topline during FY23 (to ₹ 4,600 crore) and ~22-25% YoY growth during FY24 (to ₹ 5,800 crore). Further, the operating margin is likely to sustain at 15.5-16%, going ahead, with softening in input prices and better operating efficiencies.

Debt declines QoQ; likely to hover at current levels

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 Q2FY23, its gross debt, cash and cash equivalent at the standalone level was at ₹ 392.2 crore, ₹ 40.5 crore, respectively (gross debt declined by ₹ 55.3 crore on a QoQ basis). Going forward, it has total equity requirement of ₹ 1,137 crore (₹ 609.5 crore already invested till Q2FY23; ₹ 200 crore, ₹ 190 crore, ₹ 137.5 crore to be spent during balance period of FY23, FY24, FY25 respectively) towards already secured HAM projects. Despite these, its debt is likely to hover in the range of ₹ 350-400 crore in the near term to be aided by healthy operating cash flow generation arising from improved profitability, better cash flow management and normalisation in debtor days (backed by receipt of pending mobilisation advances). Also, monetisation of HAM assets would free its invested capital, in turn, increasing its ability to bag newer projects.

Key conference call takeaways

- HG Infra has lowered their topline guidance to ~₹ 4,600 crore for FY23 (vs. ₹ 5,000 crore guided earlier) due to a) potential revenue loss during H1FY23 due to prolonged monsoon season, and b) delay in receipt of appointed date for certain projects including Ganga Expressway
- HG Infra has faced several headwinds during FY22, which includes rising prices of key raw material and various input cost, several wave of Covid-19 disrupting operations, higher crude prices and prolonged monsoon season. However, its strategy towards selective bidding, and growing operational efficiencies has enabled company to protect overall margin profile during FY22. **Going forward, the management expects margins to remain at an elevated level of 16%+ during H2FY23/ FY24 with diversified project mix and softening in input prices**
- At present, HG Infra has bid for ~₹ 15,000 crore worth of projects spread majorly across roads (₹ 11,000 crore), and water and railways vertical (₹ 4,000 crore). Additionally, the management believes ordering pipeline in the road sector from NHAI to improve ahead with authority targeting projects spanning 6,500 km to tender during FY23
- HG Infra is aiming to diversify its project portfolio towards water supply and railway redevelopment sectors. In line with that, the company has participated in the tenders for few stations announced in the recent past and is optimistic to bag some of them over next few months (the government has identified 1,253 railway stations for modernisation wherein 197 stations are likely to be awarded during FY23). Further, HG infra has bid for Jal Jeevan Mission jobs in Rajasthan and Madhya Pradesh
- Overall, the company has guided for ₹ 9,000–10,000 crore of order inflows during FY23 largely targeting from HAM - roads (₹ 3,500 crore), EPC - roads (₹ 4,500 crore) and non-road (₹ 1,500 crore) segments. The management expects competitive intensity to decline ahead.

- During Q1FY23, HG Infra **secured sub-contracting job from Adani Road Transport for Ganga Expressway (Group-II) project (design length: 151.7 km) in Uttar Pradesh on EPC basis**. The overall order size is at ₹ 4,970.1 crore (inclusive of GST) to be completed in 27 months. The company has secured appointed date on November 3, 2022 (vs. earlier expectation during Q2FY23). The execution on the project has commenced now. The management expects revenue of ₹ 700 crore; ₹ 2,000 crore during FY23, FY24, respectively, with margin hovering at 15%+
- Among key EPC projects, HG Infra has **completed a) 99.7% execution in Delhi Vadodara Package-4, b) 94% in Hapur Moradabad, c) 92% in Delhi Vadodara Package-8 (to be completed in Q3FY23), d) 81% in Delhi Vadodara Package-9 (to be completed by February 2023), and e) 72% in Mancherial – Repallewa projects (completion likely by FY23-end)**
- The execution in Karala-Kanjhawala UER EPC project has commenced with receipt of appointed date with effect from October 28, 2021. However, the implementation got impacted during initial phase due to imposing of the ban on construction activities in Delhi-NCR region and adverse weather affecting operational efficiencies. With the lifting of the ban, the project is making good progress and it is now completed 27.4% by September 2022-end. In the Neelmangala-Tumkur EPC project, the company has secured appointed date during August 2022 and is under execution
- HG Infra has secured appointed date (AD) in the newly won HAM projects i.e. a) Raipur Visakhapatnam OD (Package 5): May 30, 2022, b) Raipur Visakhapatnam OD (Package 6): June 1, 2022, and c) Khammam Devarapalle HAM project (Package - 2): September 13, 2022. With the receipt of AD, the construction work has picked up pace
- The company has achieved financial closure for Khammam Devarapalle Package – 1 (bid project cost: ₹ 772.1 crore) on September 15, 2022, and expects AD by November 2022-end (with 86% land availability)
- HG Infra is in **advanced stage of discussions with three potential investors for monetisation of its four HAM assets (three completed: Gurgaon-Sohna, Rewari Ateli Mandi and Narnaul Bypass 1; advanced stage of completion: Rewari Bypass Package-4) and expects positive outcome by FY23-end. The total equity invested till Q2FY23 in these four HAM projects is at ₹ 324 crore**
- HG Infra has **incurred ₹ 149 crore towards capex during H1FY23. Additionally, the management has guided for ~₹ 45 crore of gross capex during H2FY23** (disposal of assets would be ~₹ 45 crore; net addition would be zero) required to be spent for newer projects and jobs in newer targeting segments
- HG Infra has achieved PCoD for three HAM projects namely a) Gurgaon-Sohna, b) Rewari Ateli Mandi (by completing 170 days ahead of scheduled date) and c) Narnaul Bypass (by completing 255 days ahead of scheduled date). The company is eligible for early completion bonus in two projects (amounting to ~₹ 26 crore) and expects receipt during Q3FY23

Considering its healthy executable order book position and robust execution skill, we expect execution pace to pick up considerably in the near-to-medium term. Also, margins are likely to improve hereon gradually with softened input prices and better project mix. Additionally, strong return ratios, healthy working capital cycle, and lean balance sheet position remains key positive. We maintain BUY rating with a TP of ₹ 700/share (based on SoTP based valuation). We value core business at 9x FY24 P/E and HAM projects at 1x equity invested.

Peer Comparison

HG Infra has 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	Q2 FY23	Q2 FY23E	Q2 FY22	Q1 FY23	YoY (%)	QoQ (%)	Comments
Total Operating Income	752.1	862.1	749.6	1,065.7	0.3	-29.4	Topline performance impacted by slowed down execution due to prolonged monsoon
Other Income	3.4	3.1	5.1	3.3	-33.0	4.0	
Consumption of raw materials	578.2	685.3	588.1	857.0	-1.7	-32.5	
Employee benefit expenses	41.2	37.9	31.1	37.6	32.5	9.5	
Other Expenses	11.9	6.9	8.7	8.6	37.7	38.8	
EBITDA	120.8	131.9	121.8	162.5	-0.9	-25.7	
EBITDA Margin (%)	16.1	15.3	16.3	15.2	-19 bps	81 bps	Margin performance led by better project mix
Depreciation	-24.1	-20.3	-21.3	-20.1	13.4	19.8	
Interest	-13.8	-14.5	-12.5	-14.4	10.7	-3.9	
PBT	86.2	100.1	93.2	131.2	-7.4	-34.3	
Taxes	-21.6	-25.2	-23.3	-33.6	-7.3	-35.7	
PAT	64.6	74.9	69.8	97.6	-7.5	-33.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,387.0	4,227.6	-3.6	5,066.5	4,912.6	-3.0	Realigned based on Q2 FY23 performance
EBITDA	680.2	653.6	-3.9	783.9	763.9	-2.6	
EBITDA Margin (%)	15.5	15.5	-4 bps	15.5	15.5	5 bps	
PAT	395.2	380.0	-3.8	442.5	438.7	-0.9	
Diluted EPS (₹)	60.6	58.3	-3.8	67.9	67.3	-0.9	

Source: Company, ICICI Direct Research

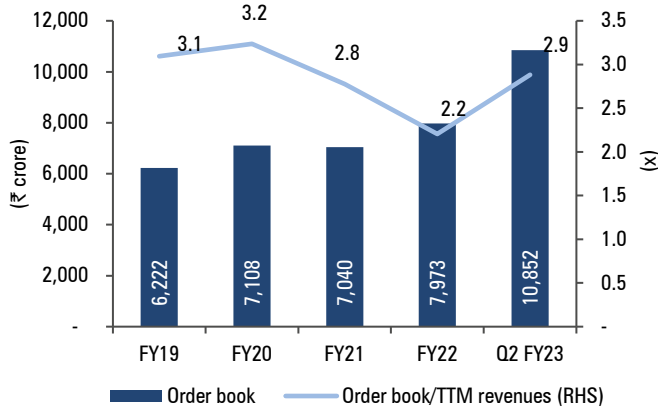
Exhibit 3: Valuation Table

Particular	Valuation method	₹/share
Standalone EPC business	9x FY24E EPS	606
HAM Projects	1x P/B	94
Total (Rounded off)		700

Source: Company, ICICI Direct Research

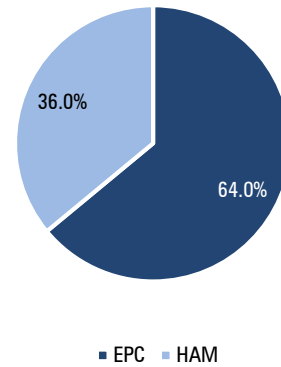
Company Analysis

Exhibit 4: Order book trend*



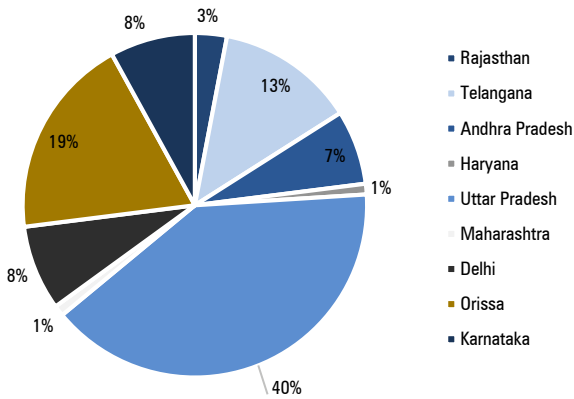
Source: Company, ICICI Direct Research

Exhibit 5: Order book composition



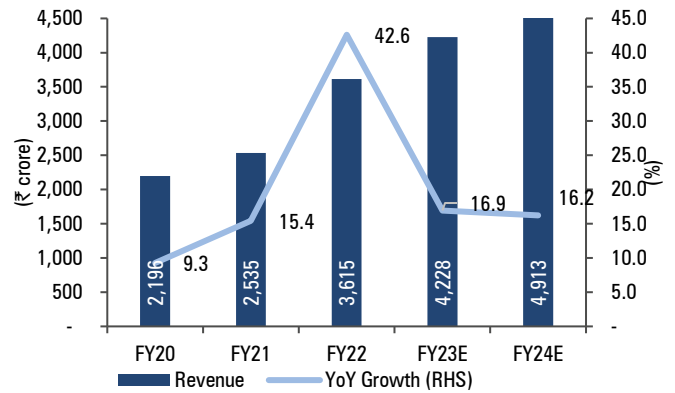
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



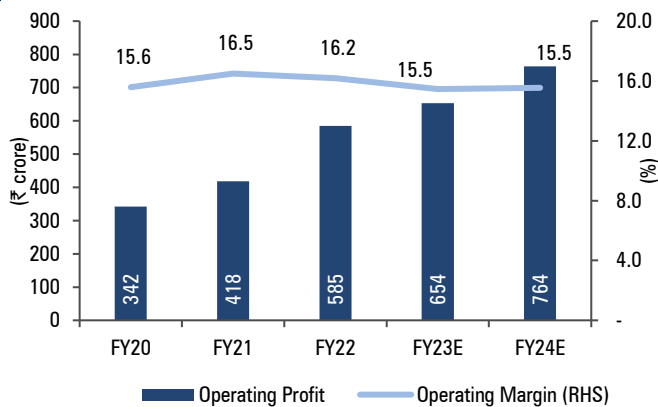
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



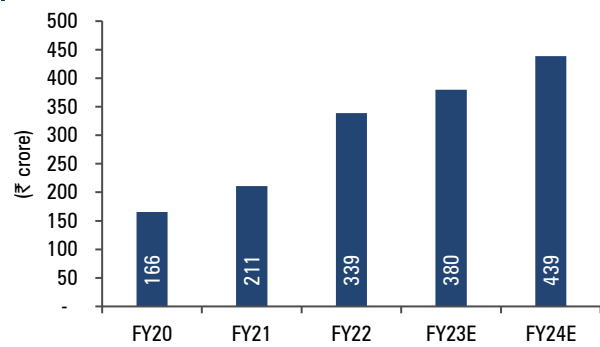
Source: Company, ICICI Direct Research

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			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	2,535.0	3,615.2	4,227.6	4,912.6
Growth (%)	15.4	42.6	16.9	16.2
Raw Material Cost	1,980.8	2,868.2	3,377.8	3,920.3
Employee Cost	109.3	127.9	157.4	183.9
Other Expenditure	26.7	34.3	38.8	44.6
Total Operating Expenditure	2,116.8	3,030.4	3,574.0	4,148.7
EBITDA	418.1	584.8	653.6	763.9
Growth (%)	22.1	39.9	11.8	16.9
Other income	8.0	7.8	10.9	12.2
Depreciation	84.4	85.1	93.2	104.8
EBIT	341.7	507.5	571.2	671.3
Interest	59.6	52.8	63.2	84.7
PBT	282.1	454.7	508.0	586.5
Tax	71.2	115.9	128.0	147.8
Rep. PAT	211.0	338.8	380.0	438.7
Exceptional items				
Adj. Net Profit	211.0	338.8	380.0	438.7
Growth (%)	27.3	60.6	12.2	15.5
EPS (₹)	32.4	52.0	58.3	67.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	967.0	1,299.2	1,672.8	2,103.4
Networth	1,032.2	1,364.3	1,738.0	2,168.6
Loan Funds	294.0	410.6	540.9	626.2
Deferred Tax liability	(9.5)	(11.4)	(11.4)	(11.4)
Other financial liabilities	2.6	6.0	6.9	8.0
Total Liabilities	1,319.3	1,769.5	2,274.4	2,791.4
Assets				
Net Block	483.0	459.0	515.7	500.9
Capital WIP	1.8	2.2	2.2	2.2
Non-current Investments	261.2	354.5	815.5	1,005.5
Other non-current assets	16.8	31.7	37.1	43.1
Loans	-	-	-	-
Inventories	168.0	183.6	220.1	269.2
Trade Receivables	657.5	699.5	845.5	969.1
Cash & Bank Balances	258.4	158.5	86.1	159.0
Loans & Advances	5.0	23.3	23.3	23.3
Other current assets	319.3	456.7	430.2	607.1
Total current assets	1,408.2	1,521.5	1,605.1	2,027.6
Total Current liabilities	851.9	599.3	701.2	787.9
Net Current Assets	556.4	922.2	904.0	1,239.8
Total Assets	1,319.3	1,769.5	2,274.4	2,791.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	211.0	338.8	380.0	438.7
Depreciation	84.4	85.1	93.2	104.8
Interest	59.6	52.8	63.2	84.7
Others	(8.8)	(9.6)	(10.9)	(12.2)
Cash Flow before wc changes	346.1	467.1	525.6	616.1
Net Increase in Current Assets	186.0	(213.2)	(156.0)	(349.6)
Net Increase in Current Liabilities	(11.1)	(249.2)	102.8	87.8
Net CF from operating activi	521.0	4.7	472.4	354.3
Net purchase of Fixed Assets	(75.7)	(61.4)	(150.0)	(90.0)
Others	(154.1)	(100.3)	(455.5)	(183.8)
Net CF from Investing Activi	(229.7)	(161.7)	(605.5)	(273.8)
Proceeds from share capital	2.9	(0.1)	0.1	(0.0)
Proceeds/Repayment from Loan	(87.3)	116.6	130.3	85.3
Interest paid	(59.6)	(52.8)	(63.2)	(84.7)
Others	(3.3)	(6.5)	(6.5)	(8.1)
Net CF rom Financing Activi	(147.2)	57.1	60.7	(7.6)
Net Cash flow	144.1	(99.9)	(72.4)	72.9
Opening Cash	114.4	258.4	158.5	86.1
Closing Cash & cash equival	258.5	158.5	86.1	159.0

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	32.4	52.0	58.3	67.3
Cash EPS	45.3	65.0	72.6	83.4
BV per share	158.4	209.3	266.7	332.8
Revenue per share	389.0	554.7	648.7	753.8
Cash Per Share	39.7	24.3	13.2	24.4
Operating Ratios (%)				
EBITDA Margin	16.5	16.2	15.5	15.5
EBIT/ Net Sales	13.2	13.8	13.3	13.4
PAT Margin	8.3	9.4	9.0	8.9
Inventory days	24.2	18.5	19.0	20.0
Debtor days	94.7	70.6	73.0	72.0
Creditor days	71.8	44.0	44.0	42.0
Return Ratios (%)				
RoE	20.4	24.8	21.9	20.2
RoCE	25.9	28.7	25.1	24.0
RoIC	31.6	31.3	25.8	25.2
Valuation Ratios (x)				
P/E	16.7	10.4	9.3	8.1
EV / EBITDA	8.5	6.5	6.1	5.2
EV / Net Sales	1.4	1.0	0.9	0.8
Price to Book Value	3.4	2.6	2.0	1.6
Solvency Ratios (x)				
Debt / EBITDA	0.7	0.7	0.8	0.8
Net Debt / Equity	0.0	0.2	0.3	0.2

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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