

## Strong execution; healthy outlook!

**About the stock:** HG Infra Engineering is a Jaipur (Rajasthan) based infrastructure company with 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

### Q3FY23 Results: HG Infra reported a strong performance during Q3FY23.

- Standalone revenue was up 22.7% YoY to ₹ 1131.7 crore, aided by execution pick-up across majority of its project sites
- EBITDA margin was at an elevated 16.8% (up 30 bps YoY) aided by one-time early completion bonus of ₹ 14.4 crore. Adjusted margin was at 15.7%. Reported EBITDA at ₹ 190 crore, was up 25% YoY
- At the net level, a strong topline performance coupled with better margins translated into 26% YoY growth in PAT to ₹ 111.9 crore

**What should investors do?** HG Infra's share price has grown at 22% CAGR over the past five years (from ~₹ 268 in March 2018 to ₹ 735 levels currently).

- We maintain **BUY** rating as we expect a pick-up in execution pace to drive strong earnings growth ahead

**Target Price and Valuation:** We value HG Infra at a target price of ₹ 915.

### 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 18% topline CAGR over FY22-25E
- 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 strong execution and margins improvement
- BUY with a target price of ₹ 120/share

### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales	2,196.1	2,535.0	3,615.2	27.9%	4,395.4	5,153.5	5,932.7	18.0%
EBITDA	342.4	418.1	584.8	36.3%	699.1	795.0	912.9	16.0%
EBITDA Margin (%)	15.6	16.5	16.2		15.9	15.4	15.4	
Net Profit	165.7	211.0	338.8	44.7%	414.4	458.4	525.5	15.8%
EPS (₹)	25.4	32.4	52.0		63.6	70.3	80.6	
P/E (x)	28.9	22.7	14.1		11.6	10.4	9.1	
EV/EBITDA (x)	14.8	11.5	8.6		7.5	6.7	5.9	
RoCE (%)	23.2	25.9	28.7		27.2	24.9	23.6	
RoE (%)	20.2	20.4	24.8		23.4	20.6	19.2	

Source: Company, ICICI Direct Research



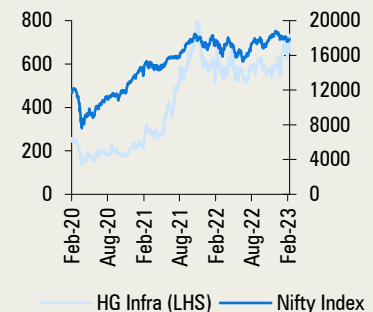
### Particulars

Particular	Amount
Market Capitalization	4,787.1
Total Debt (₹ crore)	410.6
Cash (₹ crore)	158.5
EV (₹ crore)	5,039.3
52 week H/L (₹)	744 / 508
Equity capital (₹ crore)	65.2
Face value	₹ 10

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	74.5	74.5	74.5	74.5
DII	12.5	12.5	12.2	14.0
FII	0.7	0.6	0.6	0.6
Other	12.3	12.4	12.6	10.9

### Price Chart



### Key Risks

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

### Research Analyst

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## Key business highlight and outlook

### Order book robust at 2.8x revenues; provides healthy visibility

As on Q3, HG Infra's order book was robust at ₹ 11064 crore (2.8x book to TTM revenues). Overall, the company has guided for order inflows of ~₹ 9000-10,000 crore during FY23 (already secured order inflows ₹ 5700 crore as of 9MFY23), to be driven by a strong order pipeline in roads segment and growing opportunities in other infrastructure verticals such as railways and water supply. On the execution front, the company expects a ramp-up in execution to continue driven by a) its robust order book position, b) receipt of appointed date in most of its projects (except for new orders worth ₹ 850 crore) and c) no major hindrances from external factors like rains, etc. With these, the company has guided for 22-25% YoY growth in topline during FY23 (to ₹ 4400-4500 crore) and ~22-25% YoY growth during FY24. Further, operating margins are likely to sustain at 15.5-16%, going ahead, with softening in input prices and better operating efficiencies.

### Debt to decline ahead...

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 efficiently manage working capital. At the end of Q4FY23, its gross debt, cash and cash equivalent at the standalone level was at ₹ 471.4 crore, ₹ 13.8 crore, respectively (gross debt was up by ₹ 79 crore QoQ). It expects debt to reduce by ~₹ 50 crore QoQ led by cash generation and equipment sale. Going forward, it has total equity requirement of ₹ 1,270 crore (₹ 720 crore already invested till Q3FY23; ₹ 38 crore, ₹ 330 crore, ₹ 170 crore to be spent during balance period of FY23, FY24, FY25, respectively) towards already secured HAM projects. Despite these, its debt is likely to be controlled, 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

- The company received early completion bonus of ₹ 14.4 crore (HG's share) for Narnaul bypass HAM. Adjusted EBITDA margin was at 15.7% in Q3FY23 vs. reported margins of 16.7%. HG expects bonus of ₹ 4.5 crore in Q4 for Rewari Ateli HAM
- HG Infra indicated that overall bid pipeline is ₹ 80000 crore of which ₹ 73000 crore is roads, ₹ 4000 crore from railway, ₹ 2000 crore for water projects and ₹ 1500 crore for metros. At present, HG Infra has bid for ~₹ 15,000 crore worth of projects spread mainly across roads (HAM - ₹ 10000 crore and EPC - ₹ 2000 crore) and railways vertical (₹ 3000 crore). It is seeing lower competitive intensity for HAMs while it stays high for EPC projects
- During Q1FY23, HG Infra had secured sub-contracting job from Adani Road Transport Ltd for Ganga Expressway (Group-II) project (design length: 151.7 km) in Uttar Pradesh on an EPC basis. The overall order size was at ₹ 4,438 crore to be completed in 27 months. The company secured appointed date on November 3, 2022. The execution on the project has commenced now. The management expects revenue of ₹ 600 crore; ₹ 22,000 crore during FY23, FY24, respectively, with margins hovering at 15%+
- HG Infra is in advanced stages 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 in these four HAM projects is at ₹ 343 crore. It expects valuations of 1.4x P/B
- HG Infra has guided for capex of ₹ 243 crore in FY23 and ~₹ 80 crore each for FY24 and FY25. FY23 capex also includes land of ₹ 28 crore and ₹ 25 crore for camp construction

Considering its healthy executable order book position and robust execution skill, we expect the execution pace to remain robust in the near-to-medium term. Also, margins are likely to sustain 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 target price of ₹ 915/share (based on SoTP based valuation). We value the core business at 10x FY25 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 itself geographically 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 differentiate it among peers.

**Exhibit 1: Variance Analysis**

Particulars	Q3FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,131.7	1,107.0	922.4	752.1	22.7	50.5	Improved execution drove topline performance
Other Income	3.6	3.5	2.1	3.4	70.4	4.8	
Consumption of raw materials	876.1	873.0	729.5	578.2	20.1	51.5	
Employee benefit expenses	54.3	43.0	32.3	41.2	67.7	31.8	
Other Expenses	11.5	14.0	8.6	11.9	34.4	-3.6	
EBITDA	189.8	177.0	152.1	120.8	24.8	57.2	
EBITDA Margin (%)	16.8	16.0	16.5	16.1	29 bps	72 bps	
Depreciation	-26.0	-25.0	-21.6	-24.1	20.2	7.8	
Interest	-16.1	-15.0	-12.5	-13.8	28.9	16.2	
PBT	151.3	140.5	120.1	86.2	26.0	75.5	
Taxes	-39.4	-36.0	-31.2	-21.6	26.3	82.3	
PAT	111.9	104.5	88.9	64.6	25.9	73.2	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

₹ Crore)	FY22	FY23E			FY24E			FY25E	Comments
		Old	New	% Change	Old	New	% Change	New	
Revenue	3,615.2	4,227.6	4,395.4	4.0	4,912.6	5,153.5	4.9	5,932.7	Raise execution rate ahead
EBITDA	584.8	653.6	699.1	7.0	763.9	795.0	4.1	912.9	
EBITDA Margin (%)	16.2	15.5	15.9	44 bps	15.5	15.4	-12 bps	15.4	
PAT	338.8	380.0	414.4	9.1	438.7	458.4	4.5	525.5	
Diluted EPS (₹)	52.0	58.3	63.6	9.1	67.3	70.3	4.5	80.6	

Source: Company, ICICI Direct Research

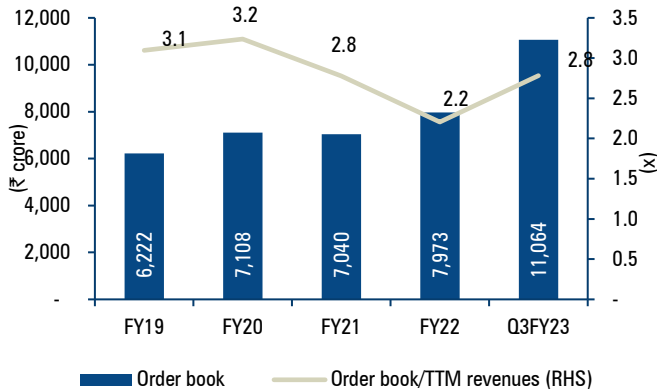
**Exhibit 3: Valuation**

Particular	Valuation method	₹/share
Standalone EPC business	10x FY25E EPS	806
HAM Projects	1x P/B	110
<b>Total (Rounded off)</b>		<b>915</b>
CMP		735
Potential upside (%)		25%

Source: Company, ICICI Direct Research

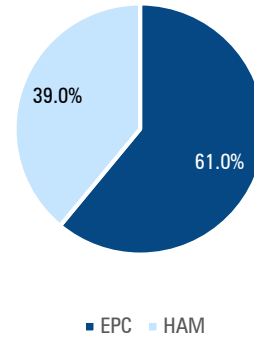
## Company Analysis

Exhibit 4: Order book trend



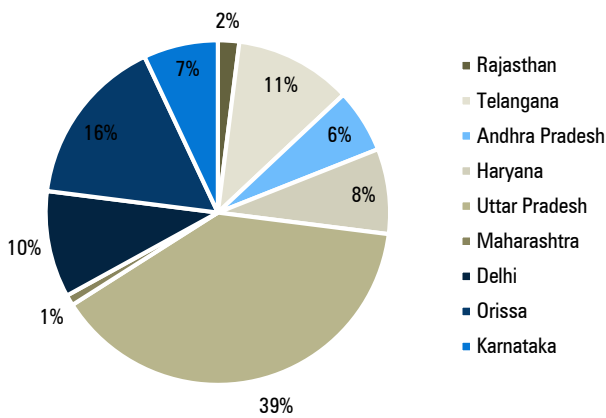
Source: Company, ICICI Direct Research

Exhibit 5: Order book composition



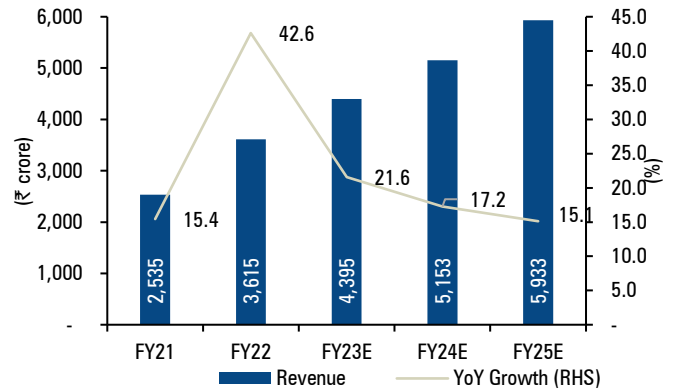
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



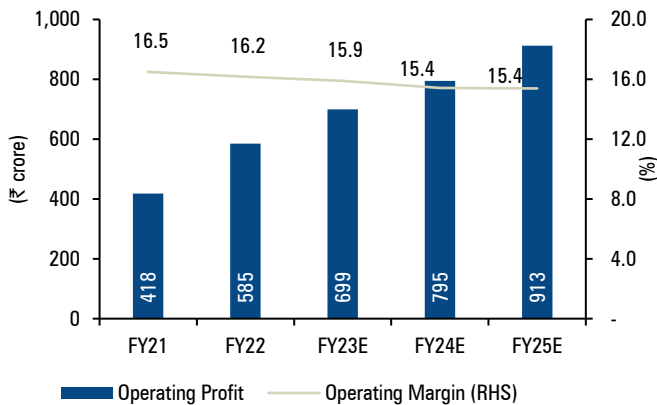
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



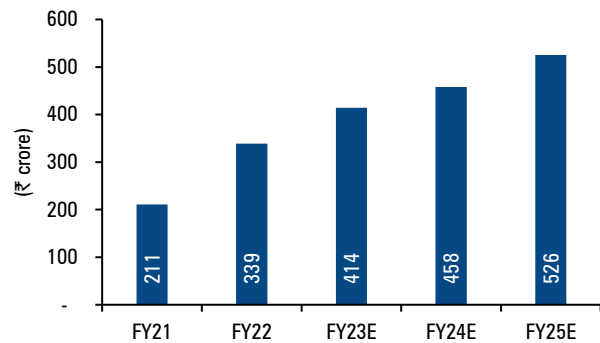
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>3,615.2</b>	<b>4,395.4</b>	<b>5,153.5</b>	<b>5,932.7</b>
Growth (%)	42.6	21.6	17.2	15.1
Raw Material Cost	2,868.2	3,475.5	4,102.2	4,740.2
Employee Cost	127.9	176.5	210.1	226.9
Other Expenditure	34.3	44.3	46.3	52.7
Total Operating Expenditure	3,030.4	3,696.4	4,358.5	5,019.8
<b>EBITDA</b>	<b>584.8</b>	<b>699.1</b>	<b>795.0</b>	<b>912.9</b>
Growth (%)	39.9	19.5	13.7	14.8
Other income	7.8	13.0	12.8	12.7
Depreciation	85.1	95.0	107.9	117.5
EBIT	507.5	617.1	699.8	808.1
Interest	52.8	60.1	83.8	101.8
PBT	454.7	557.0	616.1	706.3
Tax	115.9	142.6	157.7	180.8
<b>Rep. PAT</b>	<b>338.8</b>	<b>414.4</b>	<b>458.4</b>	<b>525.5</b>
Exceptional items				
<b>Adj. Net Profit</b>	<b>338.8</b>	<b>414.4</b>	<b>458.4</b>	<b>525.5</b>
Growth (%)	60.6	22.3	10.6	14.7
<b>EPS (₹)</b>	<b>52.0</b>	<b>63.6</b>	<b>70.3</b>	<b>80.6</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	338.8	414.4	458.4	525.5
Depreciation	85.1	95.0	107.9	117.5
Interest	52.8	60.1	83.8	101.8
Others	(9.6)	(13.0)	(12.8)	(12.7)
Cash Flow before wc changes	467.1	556.5	637.2	732.0
Net Increase in Current Assets	(213.2)	(185.5)	(376.6)	(470.4)
Net Increase in Current Liabilities	(249.2)	130.9	126.9	43.8
<b>Net CF from operating activities</b>	<b>4.7</b>	<b>501.9</b>	<b>387.5</b>	<b>305.4</b>
Net purchase of Fixed Assets	(61.4)	(150.0)	(90.0)	(90.0)
Others	(100.3)	(454.8)	(323.9)	(165.1)
<b>Net CF from Investing Activities</b>	<b>(161.7)</b>	<b>(604.8)</b>	<b>(413.9)</b>	<b>(255.1)</b>
Proceeds from share capital	(0.1)	0.1	(0.0)	0.0
Proceeds/Repayment from Loan	116.6	89.6	91.5	95.5
Interest paid	(52.8)	(60.1)	(83.8)	(101.8)
Others	(6.5)	(6.5)	(8.1)	(8.1)
<b>Net CF rom Financing Activities</b>	<b>57.1</b>	<b>23.2</b>	<b>(0.5)</b>	<b>(14.4)</b>
<b>Net Cash flow</b>	<b>(99.9)</b>	<b>(79.8)</b>	<b>(26.8)</b>	<b>36.0</b>
Opening Cash	258.4	158.5	78.7	51.9
<b>Closing Cash &amp; cash equivalents</b>	<b>158.5</b>	<b>78.7</b>	<b>51.9</b>	<b>87.9</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	1,299.2	1,707.2	2,157.4	2,674.8
Networth	1,364.3	1,772.4	2,222.6	2,740.0
Loan Funds	410.6	500.2	591.7	687.2
Deferred Tax liability	(11.4)	(11.4)	(11.4)	(11.4)
Other financial liabilities	6.0	7.2	8.4	9.8
<b>Total Liabilities</b>	<b>1,769.5</b>	<b>2,268.4</b>	<b>2,811.3</b>	<b>3,425.5</b>
<b>Assets</b>				
Net Block	459.0	513.9	496.1	468.6
Capital WIP	2.2	2.2	2.2	2.2
Non-current Investments	354.5	815.5	1,145.5	1,315.5
Othe non-current assets	31.7	38.5	45.2	53.0
Loans	-	-	-	-
Inventories	183.6	228.8	268.3	308.8
Trade Receivables	699.5	850.4	997.1	1,147.9
Cash & Bank Balances	158.5	78.7	51.9	87.9
Loans & Advances	23.3	23.3	23.3	23.3
Other current assets	456.7	446.0	636.5	915.6
Total current assets	1,521.5	1,627.3	1,977.0	2,483.4
Total Current liabilities	599.3	729.0	854.7	897.1
Net Current Assets	922.2	898.3	1,122.3	1,586.3
<b>Total Assets</b>	<b>1,769.5</b>	<b>2,268.4</b>	<b>2,811.3</b>	<b>3,425.5</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Reported EPS	52.0	63.6	70.3	80.6
Cash EPS	65.0	78.2	86.9	98.7
BV per share	209.3	272.0	341.0	420.4
Revenue per share	554.7	674.4	790.8	910.3
Cash Per Share	24.3	12.1	8.0	13.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	16.2	15.9	15.4	15.4
EBIT/ Net Sales	13.8	13.7	13.3	13.4
PAT Margin	9.4	9.4	8.9	8.9
Inventory days	18.5	19.0	19.0	19.0
Debtor days	70.6	70.6	70.6	70.6
Creditor days	44.0	44.0	44.0	38.4
<b>Return Ratios (%)</b>				
RoE	24.8	23.4	20.6	19.2
RoCE	28.7	27.2	24.9	23.6
RoIC	31.3	27.8	25.0	23.9
<b>Valuation Ratios (x)</b>				
P/E	14.1	11.6	10.4	9.1
EV / EBITDA	8.6	7.5	6.7	5.9
EV / Net Sales	1.4	1.2	1.0	0.9
Price to Book Value	3.5	2.7	2.2	1.7
<b>Solvency Ratios (x)</b>				
Debt / EBITDA	0.7	0.7	0.7	0.8
Net Debt / Equity	0.2	0.2	0.2	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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