

Strong execution; healthy outlook!

About the stock: HG Infra Engineering is a Jaipur (Rajasthan) based infrastructure company having primary focus on roads and allied sectors. Also, the company is actively looking to diversify itself by targeting the railways and water infra segment.

- Reported 26% revenue CAGR over FY18-23 with improved operating margin
- Prudent management, lean balance sheet position, superior return ratios

Q4FY23 Results: HG Infra reported a strong performance in Q4FY23.

- Standalone revenue was up 43.2% YoY to ₹ 1469.6 crore, aided by execution pickup across majority of its project sites
- EBITDA margin was at 16.2% (up 90 bps YoY) aided by benign raw materials. Reported EBITDA at ₹ 237.7 crore, was up 51.6% YoY
- At the net level, a strong topline performance coupled with better margins translated into 62% YoY growth in PAT to ₹ 147.7 crore

What should investors do? HG Infra's share price has grown at 24% CAGR over the past five years (from ~₹ 329 in May 2018 to ₹ 945 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 ₹ 1140.

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 ~17% topline CAGR over FY23-25E
- 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 PNC in the road infra space.

- Play on strong execution and order book visibility
- BUY with a target price of ₹ 410/share



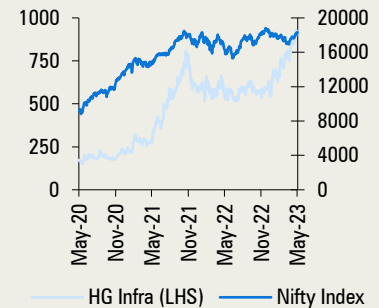
Particulars

Particular	Amount
Market Capitalization	6,153
Total Debt (₹ crore)	504
Cash (₹ crore)	179
EV (₹ crore)	6,478
52 week H/L (₹)	978 / 509
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

Price Chart



Key Risks

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

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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%	499.0	590.0	18.3%
EPS (₹)	25.4	32.4	52.0	64.7		76.6	90.5	
P/E (x)	37.3	29.3	18.2	14.7		12.4	10.5	
EV/EBITDA (x)	18.8	14.9	11.0	9.3		8.1	7.1	
RoCE (%)	23.2	25.9	28.7	26.4		25.8	24.5	
RoE (%)	20.2	20.4	24.8	23.7		22.0	20.7	

Key business highlight and outlook

Order book robust at 2.9x revenues; provides healthy visibility

As on Q4, HG Infra's order book was 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 FY23 (to maintain book to bill above ~2.5x), driven by a strong order pipeline in the roads segment and growing opportunities in other infrastructure verticals like 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. Further, it indicated that operating margin is likely to sustain at 15-16%, going ahead, with softening in input prices and better operating efficiencies.

Inks asset monetisation deal...

HG Infra has executed a share purchase agreement with Highway Infrastructure Trust (sponsored by KKR) for sale of its four 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 the deal was 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, the management expects to have NoCs (from lenders and the authority) over the next two to three months and realise the amount by September, 2023. For the fourth project, it has already applied for PCoD. The 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 help HG to release capital for future growth and drive scalability.

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 was at ₹ 503.7 crore, ₹ 179.4 crore, respectively. For all 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) 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 monetisation proceeds of HAM assets. The company expects the debt to come down to ₹ 350 crore in FY24.

Key conference call takeaways

- The company indicated that overall bid pipeline is ₹ 80000 crore across roads, railway, water projects and metros. Of the expected inflows, the company expects to win hybrid annuity orders of ~₹ 5000 crore, road EPCs of ₹ 1500 crore and non-road orders are envisaged at ~₹ 2000 crore
- The capex was ~₹ 300 crore for FY23. HG Infra has guided for capex of ~₹ 100 crore each for FY25 and FY26

Considering its healthy executable order book position and robust execution skill, we expect 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, asset monetisation and lean balance sheet position remains key positive. We maintain BUY rating with a target price of ₹ 1140/share (based on SoTP based valuation). We value core business at 11x FY25 P/E and HAM projects at 1x equity invested.

Exhibit 1: Variance Analysis

Particulars	Q4FY23	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,469.6	1,446.0	1,025.9	1,131.7	43.2	29.9	Improved execution drove topline performance
Other Income	7.7	2.7	2.7	3.6	190.8	115.2	
Consumption of raw materials	1,136.2	1,164.2	827.0	876.1	37.4	29.7	
Employee benefit expenses	62.8	43.5	33.5	54.3	87.7	15.8	
Other Expenses	32.9	12.3	8.6	11.5	280.3	185.9	
EBITDA	237.7	226.0	156.8	189.8	51.6	25.2	Margin was aided by benign raw materials
EBITDA Margin (%)	16.2	15.6	15.3	16.8	89 bps	-60 bps	
Depreciation	-26.1	-24.8	-21.8	-26.0	19.4	0.3	
Interest	-19.0	-15.7	-16.0	-16.1	18.6	17.8	
PBT	200.4	188.2	121.6	151.3	64.8	32.4	
Taxes	-52.8	-48.0	-30.5	-39.4	72.7	33.9	
PAT	147.7	140.2	91.1	111.9	62.1	31.9	Strong bottomline performance percolated to bottomline growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23	FY24E			FY25E			Comments
		Old	New	% Change	Old	New	% Change	
Revenue	4,418.5	5,153.5	5,306.1	3.0	5,932.7	6,064.0	2.2	Raise execution rate ahead
EBITDA	710.3	795.0	822.5	3.5	912.9	940.7	3.1	
EBITDA Margin (%)	16.1	15.4	15.5	7 bps	15.4	15.5	13 bps	
PAT	421.4	458.4	499.0	8.9	525.5	590.0	12.3	
Diluted EPS (₹)	64.7	70.3	76.6	8.9	67.3	90.5	12.3	

Source: Company, ICICI Direct Research

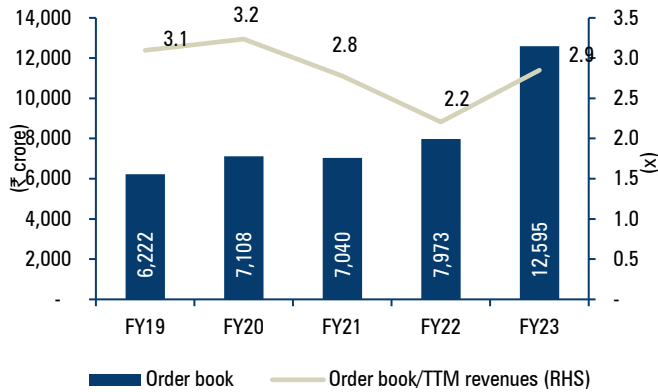
Exhibit 3: Valuation Table

Particular	Valuation method	₹ /share
Standalone EPC business	11x FY25E EPS	996
HAM Projects	At deal value and 1x P/B for remaining assets	142
Total (Rounded off)		1,140

Source: Company, ICICI Direct Research

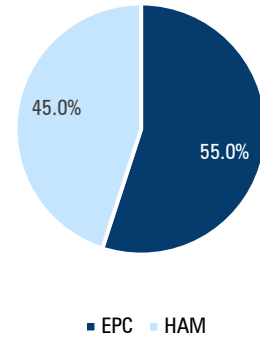
Company Analysis

Exhibit 4: Order book trend*



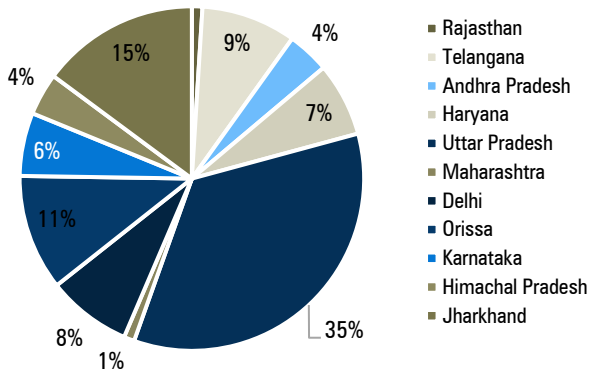
Source: Company, ICICI Direct Research

Exhibit 5: Order book composition



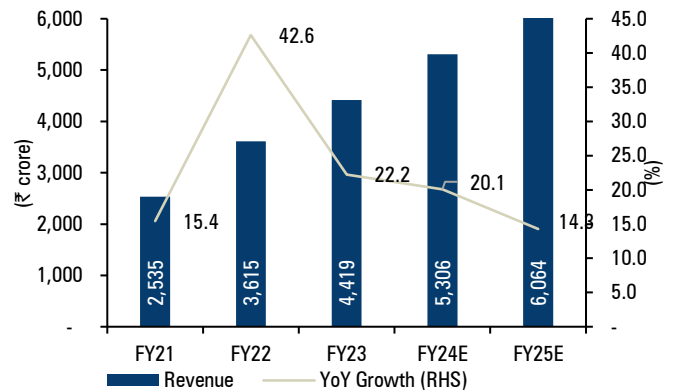
Source: Company, ICICI Direct Research

Exhibit 6: Well-diversified order book position



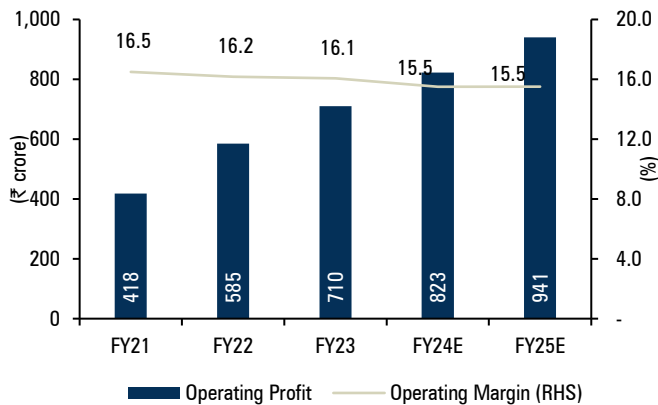
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



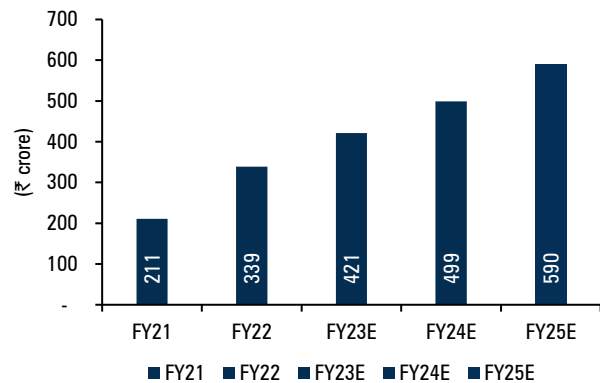
Source: Company, ICICI Direct Research

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	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	14.2
Depreciation	85.1	96.3	113.4	123.3
EBIT	507.5	632.0	723.4	831.6
Interest	52.8	63.3	52.7	38.7
PBT	454.7	568.7	670.7	793.0
Tax	115.9	147.4	171.7	203.0
Rep. PAT	338.8	421.4	499.0	590.0
Exceptional items				
Adj. Net Profit	338.8	421.4	499.0	590.0
Growth (%)	60.6	24.4	18.4	18.2
EPS (₹)	52.0	64.7	76.6	90.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	338.8	421.4	499.0	590.0
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)	(14.2)
Cash Flow before wc changes	467.1	553.3	650.8	737.7
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	548.0	482.6
Net purchase of Fixed Assets	(61.4)	(341.8)	(100.0)	(90.0)
Others	(100.3)	(382.5)	(434.2)	(354.9)
Net CF from Investing Activities	(161.7)	(724.4)	(534.2)	(444.9)
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	(129.7)	(0.4)
Opening Cash	258.4	158.5	179.4	49.7
Closing Cash & cash equivalents	158.5	179.4	49.7	49.3

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	2,206.4	2,788.2
Networth	1,364.3	1,778.4	2,271.5	2,853.4
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	2,664.6	3,230.4
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
Othe 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	49.7	49.3
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	2,181.7	2,526.6
Total Current liabilities	599.3	1,211.1	1,445.5	1,560.4
Net Current Assets	922.2	783.8	736.2	966.2
Total Assets	1,769.5	2,277.2	2,664.6	3,230.4

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	76.6	90.5
Cash EPS	65.0	79.4	94.0	109.5
BV per share	209.3	272.9	348.6	437.8
Revenue per share	554.7	678.0	814.2	930.5
Cash Per Share	24.3	27.5	7.6	7.6
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	9.4	9.7
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	22.0	20.7
RoCE	28.7	26.4	25.8	24.5
RoIC	31.3	28.8	26.6	25.0
Valuation Ratios (x)				
P/E	18.2	14.7	12.4	10.5
EV / EBITDA	11.0	9.3	8.1	7.1
EV / Net Sales	1.8	1.5	1.3	1.1
Price to Book Value	4.5	3.5	2.7	2.2
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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