HG Infra Engineering (HGINF)

CMP: ₹ 1627 Target: ₹ 1885 (16%) Target Period: 12 months

BUY

August 8, 2024

Robust performance; strong order inflows ...

About the stock: HG Infra Engineering Ltd is a Jaipur (Rajasthan) based infrastructure company having primary focus on Roads and along with railways and solar sectors. Additionally, the company is actively looking to diversify itself by targeting into water infra segment.

- Reported 20.6% revenue CAGR over FY19-24 with sustained operating margin driving ~30.3% earnings CAGR over the same period

Q1FY25 Performance: HG Infra reported healthy performance. Standalone revenue was up 18.4% YoY to ₹ 1506 crore driven by strong execution. EBITDA margin stood at 16.2% (up 5 bps YoY). It witnessed 17.9% YoY growth in PAT to ₹ 139.5 crore, with bottomline growth being lower due to higher depreciation and finance cost.

Investment Rationale:

- **Healthy revenue growth visibility on a strong order book:** The orderbook as of Q1 stood ₹15,642 crore (2.9x TTM book to bill). During Q1, the company has won orders worth ~₹ 4905 crore in the road segment including two EPC package from MSRDC. The order book is diversified with Road forming ~73% of the order book, while Railway/Metro and Solar form 16% and 11% of the order book, respectively. The company expects order inflows of ~₹ 11000-12000 crore in FY25, with 60% inflows likely from Road and remaining being non road segments. The company has guided for 18-20% revenue growth in FY25 with stable margins of 15-16%. We have baked in ~18% CAGR in topline over FY24-26E to ₹ 7135 crore. Sustained margins at 15.6-16% would ensure, ~22% CAGR in earnings over FY24-26E.
- **Well-placed to fund HAM and Solar projects:** As of June 2024, ₹ 728 crore has already been infused in HAM projects with remaining equity requirement of ₹ 733 crore. Out of the same, ₹ 425 crore is to be infused in the 9MFY25 and balance is to be infused in FY26 and FY27. The total equity requirement for the solar project is estimated to be ₹692 crore, of which ₹ 350 crore is expected to be infused in FY25. The equity requirement is likely to be met through internal accruals, and remaining receipt from asset sale.

Rating and Target Price

- Considering its executable order book position and robust execution, we expect healthy topline and earnings growth over FY24-26. Additionally, strong balance sheet, return ratios and healthy working capital cycle remain key positives ahead.
- We value HG at **₹ 1885 on SoTP basis and maintain our BUY rating**

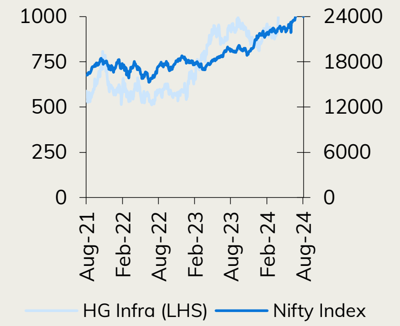
Particulars

Particular	Amount
Market Cap	10,603
Total Debt (₹ crore)	451
Cash (₹ crore)	199
EV (₹ crore)	10,855
52 week H/L (₹)	1880 / 805
Equity capital (₹ crore)	65.2
Face value	10.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	74.5	74.5	74.5	74.5
DII	13.0	12.4	12.5	12.1
FIIs	1.7	1.6	1.7	2.0
Other	10.8	11.5	11.3	11.3

Price Chart



Key risks

- Lower margins in new segment orders
- Delay in any major projects' execution

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Company Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	2 yr CAGR (FY24-26E)
Net Sales	2,535.0	3,615.2	4,418.5	5,121.7	20.6%	6,096.1	7,135.2	18.0%
EBITDA	418.1	584.8	710.3	822.0	22.1%	951.7	1,138.9	17.7%
EBITDA Margin (%)	16.5	16.2	16.1	16.0		15.6	16.0	
Reported Net Profit	211.0	338.8	421.4	545.5		561.0	691.9	
Adj Net Profit	211.0	338.8	421.4	464.5	30.3%	561.0	691.9	22.0%
EPS (₹)	32.4	52.0	64.7	83.7		86.1	106.2	
P/E (x)	49.9	31.1	25.0	19.3		18.8	15.2	
EV/EBITDA (x)	25.3	18.4	15.4	13.3		11.7	9.9	
RoCE (%)	25.9	28.7	26.4	24.0		22.9	23.1	
RoE (%)	20.4	24.8	23.7	20.0		19.5	19.4	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Guidance**: The management has guided for **revenue growth of 18-20% (vs 17-18% guided earlier) and 15-16% EBITDA margins for FY15. In terms of order inflows, it expects to achieve ₹ 11,000 – 12,000 crore of order inflow in FY25, with a focus on highways which will account for 60-65% of inflows,** with around 20% from railways and the remaining from water and solar projects.
- **Order book:** The company's order book stood at ₹15,642 crore (2.9x TTM book to bill), up 34% YoY. The roads and highway orders stood at ₹11,452 crore (73%), Railway and metro orders stood at ₹2498 crore (16%) and solar at ₹1692 crore (11%). The orderbook comprises of 28% HAM projects and 72% EPC projects. **The company has a robust bid pipeline of over ₹8000 crore worth of railway (EPC) projects and approximately ₹9000 crore worth of highway projects currently under the bidding process.**
- **Order Book Diversification:**
    - **Opportunity in Solar Power:** The company entered into MoU with Ultra Vibrant Solar Energy Private Limited for takeover and development of 116 MW of Kusum solar projects. The project brings the total solar project capacity to 700-MW valued at ₹ 1763 crore. The solar segment's order book stood at ₹1692 crore, comprising the Kusum C scheme and the Ultra Vibrant project. Execution is currently at about ~4% and progressing smoothly according to the planned timelines. The total equity requirement for the solar project is estimated to be ₹692 crore. Out of which only ₹ 1.3 crore has been infused as of June 2024. ₹ 350 crore is estimated to be infused in FY 2024-25 and balance will be infused in FY 2025-26. The company is also exploring opportunities in the hydrogen space of solar renewables and renewables in solar EPC and solar IPC.
    - **Water:** The company also informed it would look to enter the water segment in the areas like water desalination, wastewater treatment plan and other water supply projects in rural-urban areas like under JJM schemes, rainwater harvesting storage under Jal Shakti Abhiyan both under EPC and HAM mode.
    - **Roads:** H.G. Infra had been awarded two new projects by MSRDC. The first project is for construction of access control expressway NC-04 of Nagpur Chandrapur package four on EPC mode worth ₹1991 crore. The second project is for construction of access control expressway NC-05 Nagpur Chandrapur package 5 valued at ₹2151 crore. In July, the company secured two new two-lane highway projects worth ₹ 763 crore.
- **Segment wise Margin aspirations:** The company is **targeting Road EPC project margins of ~11-12% and HAM project margins of ~18%.** It has also guided for achieving an equity IRR of ~15% and an EPC margin of ~18% in the existing solar segment.
- **Asset Monetisation Progress:** The monetisation of the first tranche of three HAM assets (Gurgaon Sohna, Rewari Ateli, Ateli Narnaul) was completed in FY24 completed and the company has received ₹ 315 crore out of 375 crore and ₹ 60 crore is expected to be received by September 2024. For the fourth HAM project (The Rewari Bypass), NOC was received from NHAI and lenders in March 2024 and overall

monetisation is expected to be completed by October 2024. **The company is likely to receive ₹ 130 crore of proceeds for Rewari Bypass against its invested equity of ₹75.7 crore.**

- **HAM Project equity requirement:** The total equity requirement for 10 HAM projects is ₹ 1461 crore. As of June 2024, **₹ 728 crore has already been infused with a projected infusion of ₹ 425 crore in the remaining nine months of FY25 and balance will be infused in FY26 and FY27**.
- **Debt and Cash position:** On a standalone basis the gross debt stood at ₹ 622 crore, which was up as the company used standalone debt which was cheaper vs. mobilisation advances. Debt includes working capital debt of ₹ 250 crore, term loan and current maturities and credit limits amounting to ₹ 309 crore along with NCD's of ₹ 32 crore. The company's cash and bank balance stood at ₹118 crore.
- Capex: The company added ₹15 crore worth of capex in Q1. For the 9MFY25, it expects to do capex of ₹ 75 crore.

Exhibit 1: Quarter Performance

Particulars	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,505.9	1,271.3	1,634.5	18.4	-7.9	Steady execution drove topline performance
Other Income	3.2	3.8	4.6	-16.4	-30.9	
Consumption of raw materials	1,166.7	967.0	1,277.6	20.6	-8.7	
Employee benefit expenses	78.7	71.5	74.3	10.0	5.9	
Other Expenses	17.2	28.0	18.0	-38.7	-4.5	
EBITDA	243.3	204.8	264.6	18.8	-8.0	
EBITDA Margin (%)	16.2	16.1	16.2	5 bps	-3 bps	Margins sustained amid benign raw material prices
Depreciation	-34.8	-31.1	-38.0	12.0	-8.5	
Interest	-22.0	-17.3	-19.5	27.6	13.3	
PBT	189.7	160.2	211.7	18.4	-10.4	
Taxes	-50.1	-41.9	-51.8	19.7	-3.2	
PAT	139.5	118.4	160.0	17.9	-12.8	

Source: Company, ICICI Direct Research

Exhibit 2: SoTP Valuation

Particular	Valuation method	₹ /share
Standalone EPC business	16x FY26E EPS	1,699
HAM Projects	1x P/B for remaining assets and amount due for asset sales	185
Total (Rounded off)		**1,885**

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Net Sales	**4,418.5**	**5,121.7**	**6,096.1**	**7,135.2**
Growth (%)	22.2	15.9	19.0	17.0
Raw Material Cost	3,447.5	3,918.9	4,706.2	5,504.8
Employee Cost	195.9	288.2	329.0	364.6
Other Expenditure	64.9	92.7	109.2	126.9
Total Operating Expend	3,708.2	4,299.8	5,144.4	5,996.3
EBITDA	**710.3**	**822.0**	**951.7**	**1,138.9**
Growth (%)	21.5	15.7	15.8	19.7
Other income	18.1	12.6	16.9	18.5
Depreciation	96.3	141.2	145.5	150.8
EBIT	632.0	693.4	823.1	1,006.6
Interest	63.3	81.0	73.1	81.6
PBT	568.7	612.4	750.0	925.0
Tax	147.4	173.7	189.0	233.1
Rep. PAT	**421.4**	**545.5**	**561.0**	**691.9**
Adj. Net Profit	**421.4**	**464.5**	**561.0**	**691.9**
Growth (%)	24.4	10.2	20.8	23.3
EPS (₹)	**64.7**	**83.7**	**86.1**	**106.2**

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Profit after Tax	421.4	545.5	561.0	691.9
Depreciation	96.3	141.2	145.5	150.8
Interest	63.3	81.0	73.1	81.6
Others	(27.7)	(29.1)	(16.9)	(18.5)
CF before wc changes	553.3	738.5	762.7	905.8
Net Increase in CA	(452.5)	(566.8)	(321.6)	(447.4)
Net Increase in CL	504.6	85.7	166.2	83.2
Net CF from op. activities	**605.5**	**257.4**	**607.3**	**541.6**
Net purchase of Fixed Assets	(341.8)	(181.0)	(41.4)	(100.0)
Others	(382.5)	63.6	(729.3)	(432.4)
Net CF from Inv. Activities	**(724.4)**	**(117.3)**	**(770.8)**	**(532.4)**
Proceeds from share capital	(0.8)	2.7	(0.5)	8.1
Loan Proceeds/Repayment	210.3	(33.8)	149.9	75.9
Interest paid	(63.3)	(81.0)	(73.1)	(81.6)
Others	(6.5)	(8.1)	(8.1)	(8.1)
Net CF rom Fin. Activities	**139.8**	**(120.2)**	**68.2**	**(5.7)**
Net Cash flow	**20.9**	**19.9**	**(95.3)**	**3.5**
Opening Cash	158.5	179.4	199.3	104.0
Closing Cash & cash equiv	**179.4**	**199.3**	**104.0**	**107.5**

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	1,713.3	2,253.3	2,805.7	3,497.6
Networth	1,778.4	2,318.5	2,870.8	3,562.7
Loan Funds	503.7	451.2	579.5	630.3
Deferred Tax liability	(21.0)	(37.5)	(37.5)	(37.5)
Other financial liabilities	16.1	16.8	18.7	20.9
Total Liabilities	**2,277.2**	**2,748.9**	**3,431.5**	**4,176.5**
Assets				
Net Block	634.6	742.2	638.1	587.3
Capital WIP	71.9	4.2	4.2	4.2
Non-current Investments	744.7	627.6	1,356.6	1,787.6
Othe non-current assets	42.1	108.2	125.4	145.3
Loans	-	-	-	-
Inventories	235.3	296.7	353.1	413.3
Trade Receivables	879.1	917.7	1,085.6	1,270.6
Cash & Bank Balances	179.4	199.3	104.0	107.5
Loans & Advances	6.2	1.5	1.5	1.5
Other current assets	694.9	1,166.5	1,263.7	1,465.9
Total current assets	1,994.9	2,581.6	2,807.9	3,258.8
Total Current liabilities	1,211.1	1,314.8	1,500.7	1,606.8
Net Current Assets	783.8	1,266.8	1,307.2	1,652.0
Total Assets	**2,277.2**	**2,748.9**	**3,431.5**	**4,176.5**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Reported EPS	64.7	83.7	86.1	106.2
Cash EPS	79.4	105.4	108.4	129.3
BV per share	272.9	355.8	440.5	546.7
Revenue per share	678	786	935	1,095
Cash Per Share	27.5	30.6	16.0	16.5
Operating Ratios (%)				
EBITDA Margin	16.1	16.0	15.6	16.0
EBIT/ Net Sales	13.9	13.3	13.2	13.8
PAT Margin	9.5	9.1	9.2	9.7
Inventory days	19.4	21.1	21.1	21.1
Debtor days	72.6	65.4	65.0	65.0
Creditor days	61.4	65.1	51.0	43.8
Return Ratios (%)				
RoE	23.7	20.0	19.5	19.4
RoCE	26.4	24.0	22.9	23.1
RoIC	28.8	26.0	23.3	23.4
Valuation Ratios (x)				
P/E	25.0	19.3	18.8	15.2
EV / EBITDA	15.4	13.3	11.7	9.9
EV / Net Sales	2.5	2.1	1.8	1.6
Price to Book Value	5.9	4.5	3.7	3.0
Solvency Ratios (x)				
Debt / EBITDA	0.9	0.7	0.8	0.7
Net Debt / Equity	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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