

23<sup>rd</sup> August 2023

## H.G. Infra Engineering Ltd – BUY

**CMP** : Rs. 935.0  
**Target Price** : Rs. 1,149.0  
**Upside** : 23%  
**Stop Loss** : Rs. 810.0 (Closing basis)

### Investment Thesis

- During the last 5 years, H.G. Infra Engineering Ltd. (HG Infra) registered a Revenue/EBITDA/PAT at a CAGR of 26%/28%/30%, with order book growing at CAGR of 23% over the same period. This has been possible on the back of a disciplined project-bidding strategy and investment in a modern construction equipment fleet.
- During 1QFY24, the order inflow has been weak. However, current order book of Rs.11,674.6Cr gives revenue visibility for next 2-3 years. HG Infra has maintained revenue guidance growth of 22-23% for FY24E. Order inflow guidance for FY24E will be of Rs. 8,000Cr out of which Hybrid Annuity Model (HAM) will be of Rs. 4,000Cr, Engineering, Procurement and Construction (EPC) will be of Rs. 2,000Cr and Rs. 2,000Cr for other segments. As on date, the company has bid pipeline of Rs. 5600Cr consisting of Rs. 3,500Cr in roads and Rs. 2,100Cr in railways. The total equity investments in HAM projects stand at Rs. 1,600cr out of which the company has already infused Rs. 760Cr and is expected to invest Rs480Cr/Rs270Cr/Rs150Cr by FY24E/FY25E/FY26E.
- In the Union Budget 2023-24, Capex outlay was increased by 25% for the Road sector, 27% for Jal Jivan Mission (JJM) and 49% for railways which can create significant opportunities for HG Infra. The company is also diversifying into segments other than roads to capitalize on these massive opportunities and expects 20%-25% revenue contribution from segments other than roads in FY24E. Bidding pipeline of HG Infra is also very strong in Roads, JJM and railway segments.
- HG Infra has successfully secured non-road projects (Rs.1500Cr order inflow during FY23) after persistent efforts to diversify its order book. Company is focusing on railways/metro and water projects in key states, and targets for achieving 30-35% inflow from the non-roads sector in the next 2-3 years. This will alleviate concerns about HG being a single-sector EPC player, thereby expanding the target market.
- Due to assembly and general election in the next 1 year, it is expected that project wins will gather up momentum in Q2 and Q3. The NHAH has an impressive current tender pipeline worth Rs. 45,000Cr. HG Infra expect significant order inflows worth Rs. 70-80 billion in FY24E.

### Financials

- In FY23 HG Infra has reported revenue of Rs. 4,418.5Cr at YoY growth of 22.2% with EBITDA / PAT margin sustained at 16%/9.5% on YoY basis.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs. in Crs)	2,196.0	2,535.0	3,615.0	4,418.5	5,434.8
EBITDA (Rs. in Crs)	342.4	418.1	584.8	711.0	870.0
Adj. PAT (Rs. in Crs)	165.7	211	338	421.4	516.0
Adj. EPS (Rs.)	25.43	32.37	51.98	64.66	79.20
PE Multiple (x)	29.0	22.0	18.3	14.7	15.0

### Stock Data

Market Cap (Rs. Crs)	6,086.00
Market Cap (\$ Mn)	733.78
Shares O/S (in Mn)	65.2
Avg. Volume (3 month)	1,78,330
52-Week Range (Rs.)	996 / 532

### Shareholding Pattern

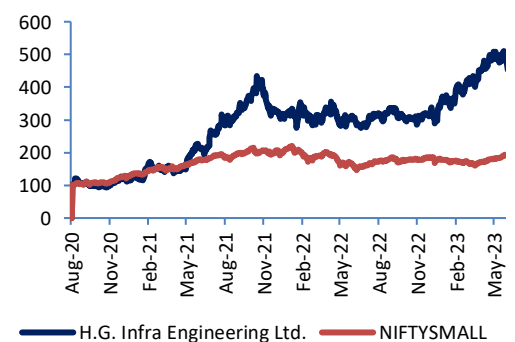
Promoters	74.53%
FII's	1.59%
Institutions	13.14%
Others (incl. body corporate)	10.73%

### Key Ratios

Div Yield	0.13%
TTM PE	13.70x
ROE	26.8%
TTM EPS (Rs.)	67.8/-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	9.0%	30.9%	61.2%
NIFTYSMALLCAP	4.0%	7.6%	36.2%



- HG Infra reported revenue growth of 19% YoY at Rs. 1,271Cr in Q1FY24; Absolute EBITDA was higher at +26% YoY, EBITDA margin stood at 16.1% vs. 15.2% YoY, 16.2% QoQ, led by strong execution of HAM projects.
- Gross margin expanded by 519bps YoY to 53.4% in Q1FY24 due to a fall in raw material prices. However, higher staff costs and other expenses limited EBITDA margin expansion to 86bps YoY, reaching to 16.1%.

## Key Business Highlights

- HG Infra Engineering Ltd. (HG Infra) 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 and water infra segment.
- RoE has been maintained above 20% in last 5 years with net working capital in the 25-45 day range.
- Asset monetization of 4 Special Purpose Vehicles (SPV), HG Infra received lender approval for 2 SPV's, will receive 3rd approval In August, NHAI approval is expected by August end, full completion of transaction is expected by September end. In May'23, HG Infra has signed agreement to sell 4 HAM projects with EV of Rs. 1390Cr of which equity value is Rs. 530Cr at 1.55x PBV.
- Gross standalone debt of HG Infra stands at Rs. 670Cr (vs Rs. 500Cr in FY23) primarily pertaining to term loans of Rs. 390Cr and working capital loans of Rs. 180Cr as on 1QFY24. Increase in debt was mainly on account of delay in receivables which were recovered in July 2023. By end of FY24, management expects to reduce the debt to Rs. 430Cr. Going forward, the management expects to maintain a Capex of Rs. 1,000 Cr in FY24 and FY25.
- Due to effective operational efficiency and focus toward high margin projects, HG infra maintained margin in range of 16%-17% in last 5 year. In FY24E also HG Infra is expecting operating margin of 16%.

## Valuation

After a positive Q1FY24 results, HG Infra is trading at TTM PE of 11.5x which is at a significant discount to the average industry PE of 25.4x. With strong order book of Rs. 11,674.6Cr as on Q1FY24 which is 2.64x of FY23 revenue, coupled with strong execution capabilities, effective working capital management, geographical diversification, transition into full-fledged contractor and focus on asset monetization, we are confident that HG Infra is poised for a re-rating.

Therefore in light of the above, we assign a BUY rating on HG Infra with a target price of Rs. 1,149.00, an upside of 23%, valuing HG Infra at 15x PE of 79.20 (EPS FY24E).

## Risk & Concern

- Lower order inflow and lower order execution than guided may hamper revenue growth of HG Infra going ahead.
- Any increase in input cost may impact margins of HG Infra.

## Graphs & Charts

Figure 1: Revenue Trend (Rs. in Crs)



Figure 2: EBITDA & EBITDA Margin Trend

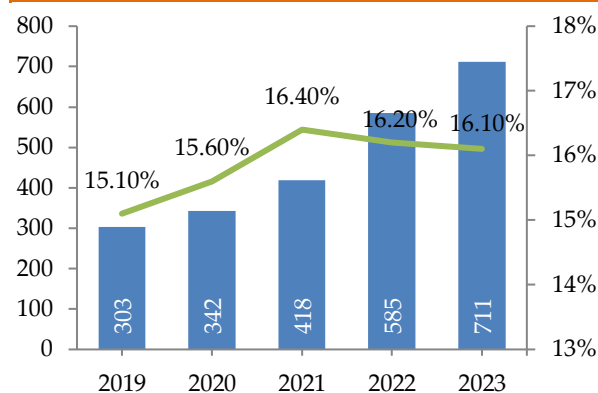


Figure 3: Location-wise Revenue (Q1FY24)

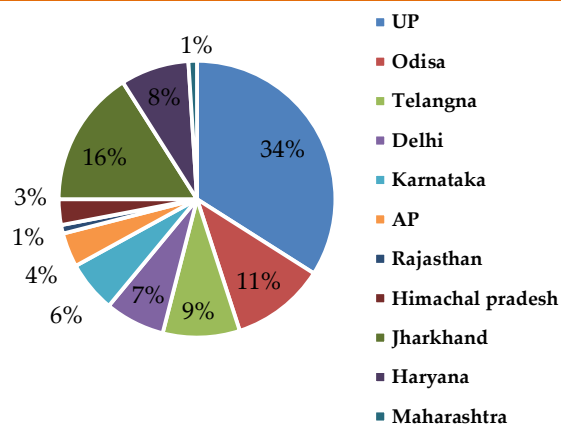
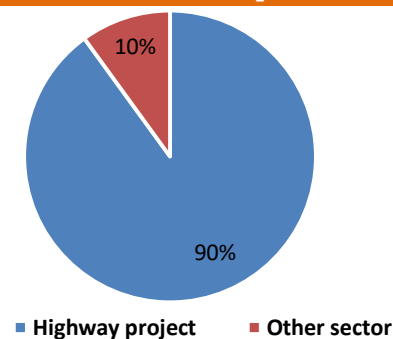


Figure 4: Order Book Breakup (Q1FY24)



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