



SEBI Research Analyst Registration No: INH000009843

## **H.G. Infra Engineering Ltd. (HGIEL)**

### Initiating Coverage

22<sup>nd</sup> December, 2022

**CMP: ₹556.20 | Target Price: ₹681**

**Upside Potential: 22.46% | Duration: 1 Year**

**Market Capitalisation: ₹3,620 Cr.**

Research Analyst - Tushar Raghatate, Ajinkya Jadhav

**Investors are advised to refer through important disclosures made at the end of the Research Report.**



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## ABOUT

H.G. Infra Engineering Limited was incorporated in 2003 in Jodhpur, Rajasthan. The company is engaged in infrastructure development and the construction of roads and highways across Rajasthan, Uttar Pradesh, Haryana, Maharashtra, Andhra Pradesh, and Telangana. In FY2018, the company successfully concluded its IPO. HGIEL is accredited AA class by the Public Works Department (PWD) of the Government of Rajasthan (GoR) and is also registered as an SS class contractor by the Military Engineer Services (MES).

The company caters to a wide range of clients, including government and private. HGIEL has built a robust business model centered on complete integration coupled with a large fleet of in-house equipment and skilled manpower. Leveraging this business model, the Company has a proven track record in successfully executing large-sized civil construction projects such as extension and grading of runways, railways and land development, and water pipeline projects. Moving forward, the company will prioritize its strategies around three broad areas – continued focus on EPC and HAM in the road sector, move up in the value chain and diversify into other sectors within the infrastructure space and maintain a steady growth without stretching the balance sheet.

The company has total unexecuted order book of Rs. 10,851 Cr. (2.89x of FY22 sales) as of H1FY23 with 64% being in the EPC projects and 36% in HAM projects. HGIEL has a target of receiving Rs. 9500 Cr. worth of orders in FY23, of which company has already received Rs. 4500 Cr (Ganga Expressway project) and further Rs. 5000 Cr. worth of orders are expected in H2FY23. The expected orders will be majorly coming from HAM worth Rs. 3500 Cr. and balance Rs. 1500 Cr. from EPC of NHAI or EPC of Railways or any EPC of water. The company has seasonality in the business wherein Q4 comprises of 35% of the annual revenue.

Central Government's commitment towards transforming the country's infrastructure is evident under National Infrastructure Pipeline (NIP). Out of the total Rs. 111 lakh Cr. allocation to NIP, the total capex for road infrastructure will be Rs. 20.33 lakh Cr. for FY20-25. Infrastructure will be the backbone to achieve \$5 trillion economy for India,

Over the past seven years, national highways have risen by more than 50% from 91,287 km (as of April 2014) to 1,45,000 km now, despite the challenges posed by the pandemic. NHAI has set full year target of 6,500 kilometers of road projects to be awarded in FY2,3 which has been slow in H1FY23, but is expected to pick up in H2FY23. Ministry of Road Transport and Highways (MoRTH) has set a target of 50 km/day of highway construction which translates to 18250 km of constructed road by FY24. As per our conservative estimates considering the historical per day construction which ranges from 25-36 km/day, we estimate 40 km/day (considering the huge push from the Government) construction which translates to 14,600 km.

The extensive focus of the Government towards the Road Infrastructure industry will be the game changer for the companies in this sector. HGIEL has nearly 2 decades of experience in the industry. The company meticulously identifies the projects considering the cost optimization to maintain 15-16% margin profile. The extensive experience of the promoter and its engineering team empowers them to select appropriate projects that will suit its IRR.

HGIEL's customer base includes Government bodies like NHAI, MoRTH, and private road developers like Adani Road Transport Limited, Tata Projects Limited etc. It has also executed orders for the public works departments, R&B divisions and state road project divisions of various states like Rajasthan, Uttar Pradesh, Maharashtra etc. in the past. The counterparty credit risk remains low given the reputed client profile.

**As per our conservative estimates we expect the company should grow its topline by 23% CAGR till FY24E (Historical 5yr sales CAGR is 28%) which translates to Rs. 5,700 Cr. by FY24 with EBIT margins of 15-16%. (Management has given a guidance of Rs. 6,000 Cr revenue for FY24).**

## PROMOTERS AND MANAGEMENT TEAM

- **HARENDRA SINGH, MANAGING DIRECTOR**



1. Mr. Harendra Singh has been on the Board of Company since its incorporation. He holds a bachelor's degree in Engineering (Civil) from Jodhpur University and has garnered more than 27 years of experience in the construction industry. He was awarded twice by the Indian Achievers Forum.
2. He took total remuneration of Rs. 2.60 Cr. which is 0.68% of FY22 PAT. He holds 24.85% stake in the company.

- **VIJENDRA SINGH, WHOLE TIME DIRECTOR**



1. Mr. Vijendra Singh has been on the Board of Company since its incorporation. After garnering a basic education, he amassed more than 29 years of experience in the construction industry.
2. He took total remuneration of Rs. 1.60 Cr. which is 0.42% of FY22 PAT. He holds 24.84% stake in the company.

- **DINESH KUMAR GOYAL, WHOLE TIME DIRECTOR**



Mr. Dinesh Kumar Goyal, an ex-IAS, retired as Additional Chief Secretary to Govt. of Rajasthan in 2013. He has 39 years of experience at top level in various departments including Finance, Energy, Public Works, Roads & Highway, Mines, Industries, Urban Development, and Labour. After retirement from IAS, he has been Adviser to Solar Energy Corp. of India; Senior Consultant for the World Bank funded road sector projects, and Advisor to Hindustan Zinc Ltd. He became the Director of Company with effect from May 23, 2018. He is a Ph.D. from Birla Institute of Tech. & Science, Pilani; M.Sc. from London School of Economics; M.Sc. (I) from IIT Delhi; and an Eisenhower Fellow. He took total remuneration of Rs. 0.45 Cr. which is 0.12% of FY22 PAT.

# CORPORATE GOVERNANCE

Positive
  Negative

Checklist	Remark
<b>Auditors' opinion</b>	<b>Unmodified</b>
<b>Auditor change</b>	<b>No Frequent change in Auditor</b>
<b>Promoter pledged %</b>	<b>No promoter pledge</b>
<b>Conference call</b>	<b>Yes, shows investment friendliness</b>
<b>Investment presentation</b>	<b>Yes, shows investment friendliness</b>
<b>Subsidiaries</b>	<b>No complex subsidiaries</b>
<b>Independent Directors as % of Board</b>	<b>50%, Good sign</b>

# INDUSTRY ANALYSIS

## NATIONAL INFRASTRUCTURE PIPELINE (NIP)

- NIP is a signature project of the Indian Govt. to develop world class infrastructure in India. NIP outlined plans to invest Rs 111 lakh Cr. on infrastructure projects by 2024-25, with the Centre, States and the private sector to share the capital expenditure in a 39:39:22 formula.
- To achieve \$5 trillion economy of India, infrastructure is an important factor. FY20-FY25 is the execution period of the National Infrastructure Pipeline. Out of the total Rs. 111 lakh Cr. allocation to NIP, the total capex for road infrastructure will be Rs. 20.33 lakh Cr. for FY20-25.
- India's projected capital expenditures on infrastructure will be dominated by sectors such as energy (24%), roads (19%), urban (16%), and railways (13%) between 2020 and 2025. Approximately 42% of the NIP projects are under implementation, which means construction has already begun. Another 19% is under development stage, while a big 31% is still in the conceptual stage

Ministry/ department	FY20	FY21	FY22	FY23	FY24	FY25	No phasing	FY20-FY25
<b>Energy</b>								
Power	164,140	225,551	221,734	223,487	225,236	211,002	139,279	1,410,428
Renewable nergy	30,500	151,000	144,000	170,000	217,000	217,000	0	929,500
Atomic energy	11,635	21,462	28,324	33,124	32,674	28,284	0	155,503
Petroleum and natural gas	27,332	43,510	48,314	41,523	22,858	10,535	499	194,572
<b>Total energy</b>	<b>233,607</b>	<b>441,522</b>	<b>442,372</b>	<b>468,134</b>	<b>497,768</b>	<b>466,821</b>	<b>139,778</b>	<b>2,690,003</b>
<b>Roads</b>								
Roads	332,559	383,283	356,966	252,780	240,761	332,659	134,815	2,033,823
<b>Total roads</b>	<b>332,559</b>	<b>383,283</b>	<b>356,966</b>	<b>252,780</b>	<b>240,761</b>	<b>332,659</b>	<b>134,815</b>	<b>2,033,823</b>
<b>Railways</b>								
Railways	133,387	262,465	308,800	273,831	221,209	167,870	0	1,367,563
<b>Total railways</b>	<b>133,387</b>	<b>262,465</b>	<b>308,800</b>	<b>273,831</b>	<b>221,209</b>	<b>167,870</b>	<b>0</b>	<b>1,367,563</b>
<b>Ports</b>								
Ports	13,357	18,104	20,649	15,863	7,724	10,002	35,495	121,194
<b>Total ports</b>	<b>13,357</b>	<b>18,104</b>	<b>20,649</b>	<b>15,863</b>	<b>7,724</b>	<b>10,002</b>	<b>35,495</b>	<b>121,194</b>
<b>Airports</b>								
Airports	18,667	21,655	24,820	21,334	25,386	5,141	26,445	143,448
<b>Total airports</b>	<b>18,667</b>	<b>21,655</b>	<b>24,820</b>	<b>21,334</b>	<b>25,386</b>	<b>5,141</b>	<b>26,445</b>	<b>143,448</b>
<b>Urban</b>								
Atal Mission for Rejuvenation and Urban Transformation, Smart Cities, MRTS, Affordable Housing, Jal Jeevan Mission	298,174	462,208	404,134	234,858	217,164	159,862	142,867	1,919,267
<b>Total urban</b>	<b>298,174</b>	<b>462,208</b>	<b>404,134</b>	<b>234,858</b>	<b>217,164</b>	<b>159,862</b>	<b>142,867</b>	<b>1,919,267</b>

Source- National Infrastructure Pipeline, website, KamayaKya research

## FUNDING MODELS FOR CONTRACTORS

### 1. ENGINEERING, PROCUREMENT AND CONSTRUCTION (EPC)

An “Engineering, Procurement and Construction” (EPC) - Project is a particular form of contracting arrangement used in Construction sector, where the EPC Contractor is made responsible for all activities from design, procurement, construction, to commissioning and handover of the deliverables to the Owner or Operator. However, it has some draw-backs such as limited project changes by owner including design changes, limited risk transfer due to liability limitations as per contract. The rigid clauses may also result in increasing probability of contractor’s claim to relieve risk transfer.

### 2. BUILD OPERATE AND TRANSFER (BOT)

A build-operate-transfer (BOT) contract is a model used to finance large projects, typically infrastructure projects developed through public-private partnerships. Under a build-operate-transfer (BOT) contract, an entity, usually a government grants a concession to a private company to finance, build and operate a project for a period of 20-30 years. After that period, the project is returned to the public entity that originally granted the concession. It has two types as follows: a) In Annuity model the Revenue risk transferred to Authority, Concessionaire to get Fixed b) In Toll based BOT the revenue risk is on Concessionaire, where the revenue is collected in Toll form.

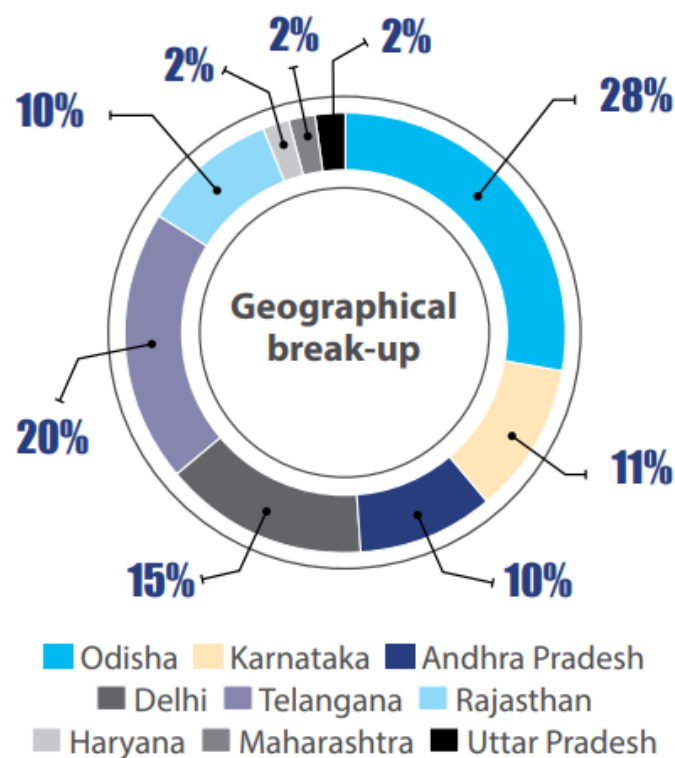
### 3. HYBRID ANNUITY MODEL (HAM)

The MoRTH introduced the HAM model in June 2015. HAM is a new public-private partnership (PPP) framework in which 40% of the project cost is funded by the government, while the balance is arranged by the developer through a debt-equity mix. Upon completion of construction, the government will make thirty semi-annual payments to the developer. The government shoulders the responsibility of revenue collection (by toll). The government will then pay the fixed amount of annuity annually to the private player for the defined period (10 or 20 years) as per the contract. The government will select that private player (in competitive bidding) who asks for minimum annuity from the government. HAM is a win- win situation for both private players and government. The government has reduced responsibility for arranging the cost of the project (only 40%, while in EPC it was 100%). The private player has to arrange for only 60% of project cost (in BOT ANNUITY, it was 100%, unless government gives viability gap funding), so risk for the private sector is minimal in HAM projects.



## THE COMPANY

- The company is engaged in infrastructure development and the construction of roads and highways across Rajasthan, Uttar Pradesh, Haryana, Maharashtra, Andhra Pradesh, and Telangana.
- Company has total unexecuted order book of Rs. 10,851 Cr. (2.89x of FY22 sales) as of H1 FY23 with 64% being for EPC projects and 36% in the HAM projects.
- HGIEL has 57% government orders and 43% private orders.
- The company is the subcontractor for Tata Projects and IRB. The margins would be 0.5-1% less than the prime contractor.



Geographical break up FY22 revenue (Source- Annual report FY22)

## PROJECT STATUS

Project	Awarding Authority	Project Status	Completion Progress as on 30th Sept' 22	Unexecuted Value (Rs Mn)
Ganga Expressway	Adani	Under Execution	1.5%	43,707
Raipur-Visakhapatnam OD5	NHAI	Under Execution	8.4%	11,766
UER P1	NHAI	Under Execution	27.4%	9,030
Raipur-Visakhapatnam OD6	NHAI	Under Execution	12%	8,391
Neelmangala-Tumkur	NHAI	Under Execution	0.7%	8,384
Raipur-Visakhapatnam AP P1	NHAI	Under Execution	13%	7,085
Khammam-Devarapalle P1	NHAI	Under Execution	1%	6,057
Khammam-Devarapalle P2	NHAI	Under Execution	0.3%	5,029
Delhi Vadodara Pkg-9	NHAI	Under Execution	81%	2,350
Mancherial - Repallewada	Adani	Under Execution	72%	2,653
Delhi Vadodara Pkg-8	NHAI	Under Execution	92%	660
MoRTH Maharashtra Projects	MoRTH	Under Execution	92%	1,204
Rewari Bypass Pkg-4	NHAI	Under Execution	86%	643
Hapur-Moradabad	IRB - MRM	Under Execution	94%	504
Rajasthan Project (World Bank funded)	PWD	Under Execution	92%	477
Rewari Ateli Mandi	NHAI	Under Execution	97%	138
Narnual Bypass	NHAI	Under Execution	99%	49
Delhi Vadodara Pkg-4	NHAI	Under Execution	99.7%	28
Others ( NTPC)	NTPC	Under Execution	60%	361
<b>Grand total</b>				<b>1,08,516</b>

## RAW MATERIAL

- Steel, Bitumen and Cement are the major raw materials used in the business.

## MARQUEE CLIENTS

- HGIEL's customer base includes Government bodies like NHAI, MoRTH, and private road developers like Adani Road Transport Limited, Tata Projects Limited etc.
- The company has also executed orders for the public works departments, R&B divisions and state road project divisions of various states like Rajasthan, Uttar Pradesh, Maharashtra etc. in the past. The counterparty credit risk remains low given the reputed client profile.

## SUBSIDIARIES

- The company has 9 wholly owned subsidiaries and 3 jointly controlled operations.

## STRENGTHS

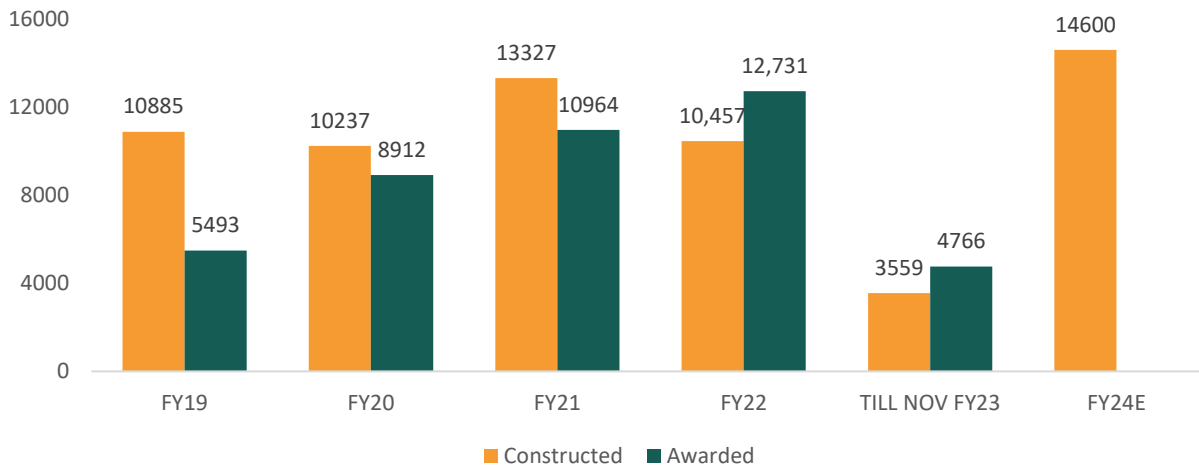
- HGIEL has nearly 2 decades of experience in the industry. The company meticulously identifies the projects considering the cost optimization to maintain 15-16% EBIT margin profile.
- The extensive experience of the promoter and its engineering team empowers them to select appropriate projects that will suit its IRR.

# TRIGGERS

## GOVERNMENT PUSH FOR INFRASTRUCTURE SECTOR

- Road ministry allocation in FY23 budget was Rs. 1,99,108 Cr. vs Rs. 1,18,101 Cr. in FY22 (51.8% increase). The higher FY23 allocation for Road ministry is expected to be exhausted by Feb end of CY23. So, an even higher FY24 budgetary support would be required. (Source mint newspaper dated 8/12/2023)
- MoRTH has set a target of constructing 12,200 km of national highways during FY23, against which 4,766 km have been constructed till November, 2022.
- MoRTH has set a target of 50 km/day of highway construction which translates to 18250 km of constructed road by FY24. As per our conservative estimates considering the historical per day construction which ranges from 25-36 km/day. We estimate 40 km/day (considering the huge push from the Government) construction which translates to 14600 km.

**Project awarded (in km) vs Highway constructed (in km)**



Source-MoRTH, KamayaKya research

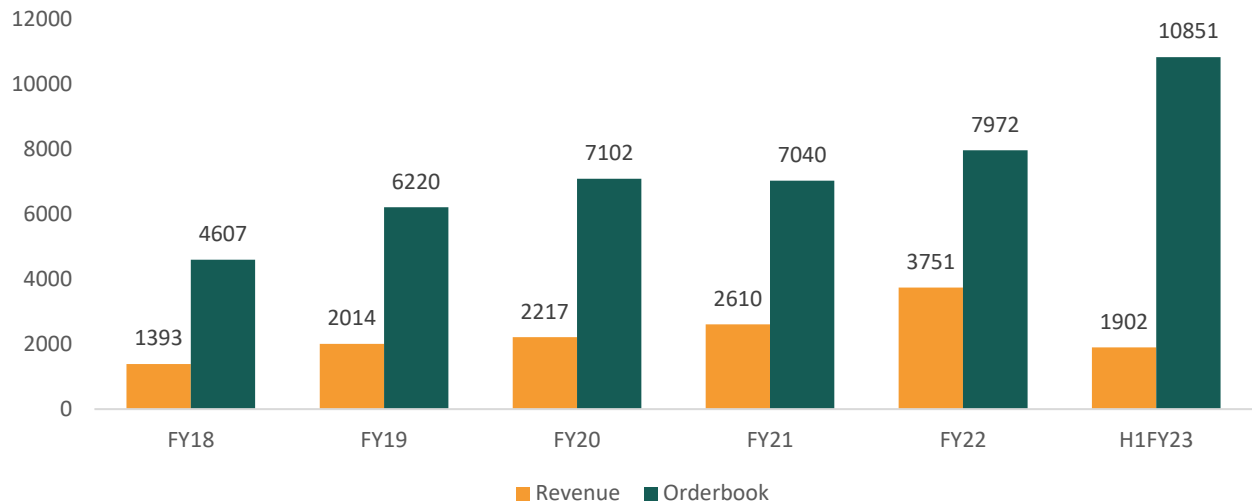
- A significant portion of the ministry’s capex plan for the current fiscal was allocated to the NHAI at Rs. 1.34 trillion. The NHAI is the main road construction agency of the Ministry of Road Transport and Highways (MoRTH).
- NHAI’s spending will include funding for the Bharatmala Pariyojana, an umbrella highway scheme aimed at optimizing the efficiency of freight and passenger movement by addressing critical infrastructural gaps.

- Over the past seven years national highways have risen by more than 50% from 91,287 km (as of April 2014) to 145,000 km now, despite the challenges posed by the pandemic.
- NHAI has set full year target of 6,500 kilometers of road projects to be awarded in FY23 and in terms of construction NHAI targets to complete 5000 km of which only 1471 km got completed in H1FY23, which is just 30% of the full year target. The gap is expected to be filled in H2FY23. NHAI targets to reach a pace of close to 50 km per day by FY24, up from 37 km per day in FY21.
- In FY22, NHAI constructed a total length of 4,325 km, which is higher than 4,218 km in FY21 and 3,979 km in FY20.
- Total order pipeline is Rs. 80,000 Crores in the road sector and out of this 25% is for EPC and 75% is for HAM.

### **ROBUST ORDER BOOK TO PROVIDE REVENUE VISIBILITY**

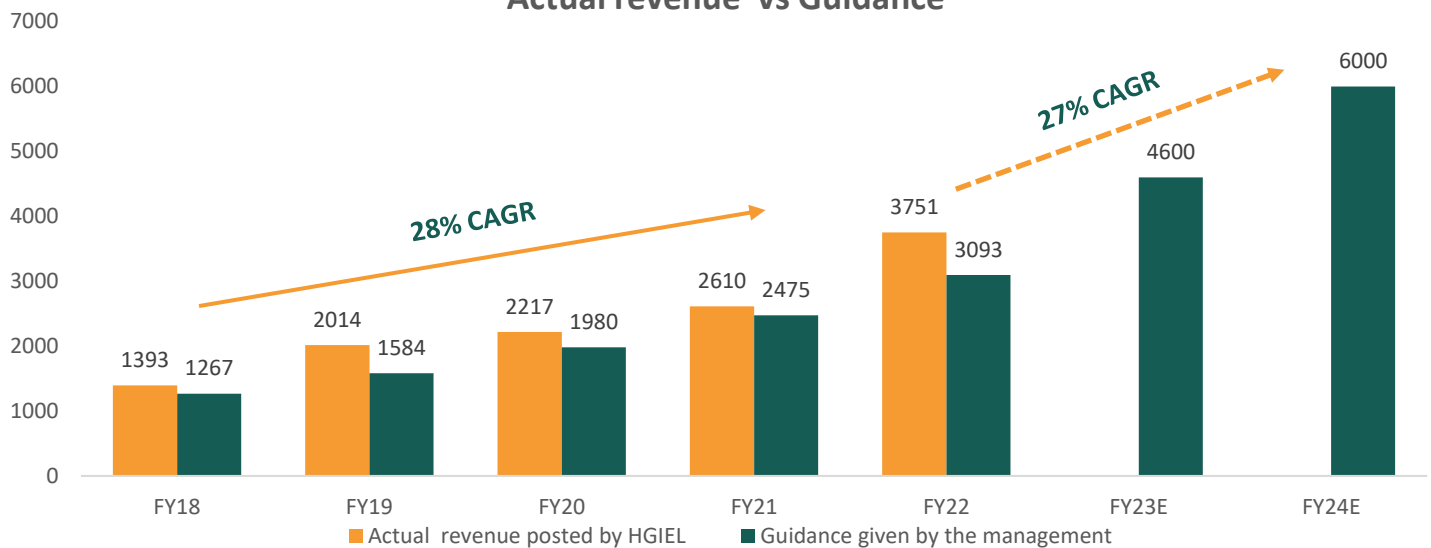
- The company has total unexecuted order book of Rs. 10,851 Cr. (2.89x of FY22 sales) as of H1FY23 with 64% being EPC projects and 36% being HAM projects.
- HAM total equity requirement for FY24 and FY25 is Rs. 1,137 Cr. Out of this, the company has already invested Rs. 610 Cr. and Rs. 200 Cr. would be invested in H2FY23.
- HGIEL has a target of receiving Rs. 9500 Cr. worth of orders in FY23, of which the company has already received Rs. 4500 Cr (Ganga Expressway project) and further Rs. 5000 Cr. worth of order is expected in FY23. The expected orders will be majorly coming from HAM, worth Rs. 3500 Cr. and balance Rs. 1500 Cr. from EPC of NHAI or EPC of Railways or EPC of water.
- The company has bid for Rs. 15,000 Cr. worth of projects, of which Rs. 11,000 Cr. is for NHAI and Rs. 4,000 Cr. in Railway and Water infrastructure projects.
- **As per our conservative estimates, we expect the company should grow its topline by 23% CAGR till FY24E which translates to Rs. 5,700 Cr. by FY24 with EBIT margins of 15-16%. (Management has given a revenue guidance of Rs. 6,000 Cr for FY24).**
- The company won the major project - Ganga Expressway (from Adani Road Transport Ltd.) with contract price of Rs. 4,970 Cr. (45% of orderbook) in Nov 22 with an execution period of 820 days. The target revenue recognition from this project will be Rs. 700 Cr. in FY23 and Rs. 2,000 Cr. in FY24. The revenue recognition of the project will be the major driver of our expected growth in FY24.
- Higher pace of contract execution will help HGIEL to leverage the fixed cost and support them to scale their EBIT margin.
- **The company has been growing at 28% CAGR for last 5 years and going forward we expect the company to grow by 23% CAGR till FY24.**

### Revenue vs order book



Source - Company, KamayaKya research

### Actual revenue vs Guidance



Source - Company, KamayaKya research

### METICULOUS SELECTION OF PROJECTS TO MAINTAIN OPERATING MARGINS AND ROCE

- HGIEL meticulously identifies the projects considering the cost optimization to maintain 15-16% margin profile. The extensive experience of the promoter and its engineering team empowers them to select appropriate projects that will suit its IRR.

## **MONETIZATION OF HAM ASSETS TO PROVIDE CUSHION FOR LIQUIDITY REQUIREMENTS**

- The company is actively working with three proposals in order to monetize its HAM assets at 30-40% premium of invested equity worth Rs. 350 Cr. at 12% discount rate. HGIEL expects to finalize the deal by end of FY23, though the amount will start flowing by FY24 in a gradual manner. The liquidity will provide cushion for further HAM projects' equity requirements.

## **DIVERSIFICATION OF THE BUSINESS TO REDUCE CONCENTRATION RISK**

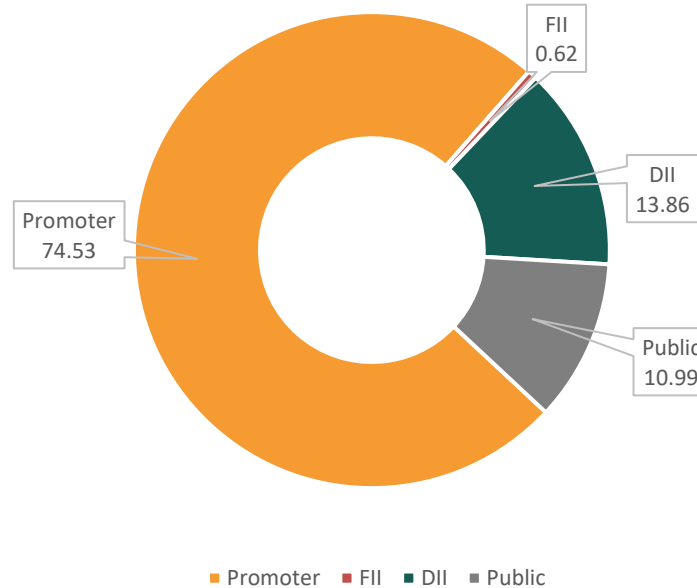
- HGIEL is actively bidding for the projects in Railways and Water infrastructure in order to reduce concentration towards Road business. The company has a target to have non road business as 25% of the total revenue going forward. The company is selective while choosing projects in these areas to maintain margin profile of 15-16%.
- The company can independently bid for projects worth Rs. 1000-1500 Cr. where as in Water infrastructure it will go for partnerships. In water projects, company will be actively bidding for Jal Jeevan Mission projects in Rajasthan, Uttar Pradesh and Madhya Pradesh.

## RISKS

- The heightened competition in the road sector along with a steep increase in input costs (steel, cement, etc.) could exert pressure on the company's profitability. However, the presence of price escalation clauses in these contracts mitigates the risk to an extent.
- MoRTH is considering to reduce HAM contribution from 40% to 20%, which will in turn lead to more equity requirement by the company, which will reduce the net worth. But the move will reduce the competition and will help companies like HGIEL to gain market share.
- Higher interest rate will impact the overall profitability of the business considering the project loans.
- The concentration of order book in road segment and execution remains a concern for this business.
- There is a risk of reduction in the workflow in case of any prolonged downcycle in the road construction sector, as almost the entire order book (~95%) consists of road projects.
- The monsoon season is the deterrent factor for infrastructure business as it slows down the pace of execution.
- A slowdown in the execution or any increase in the working capital cycle remains a concern in this business.
- Relatively underpenetrated market presence in southern and eastern states.



## SHAREHOLDING PATTERN (Q2FY23)



## PEER DESCRIPTION

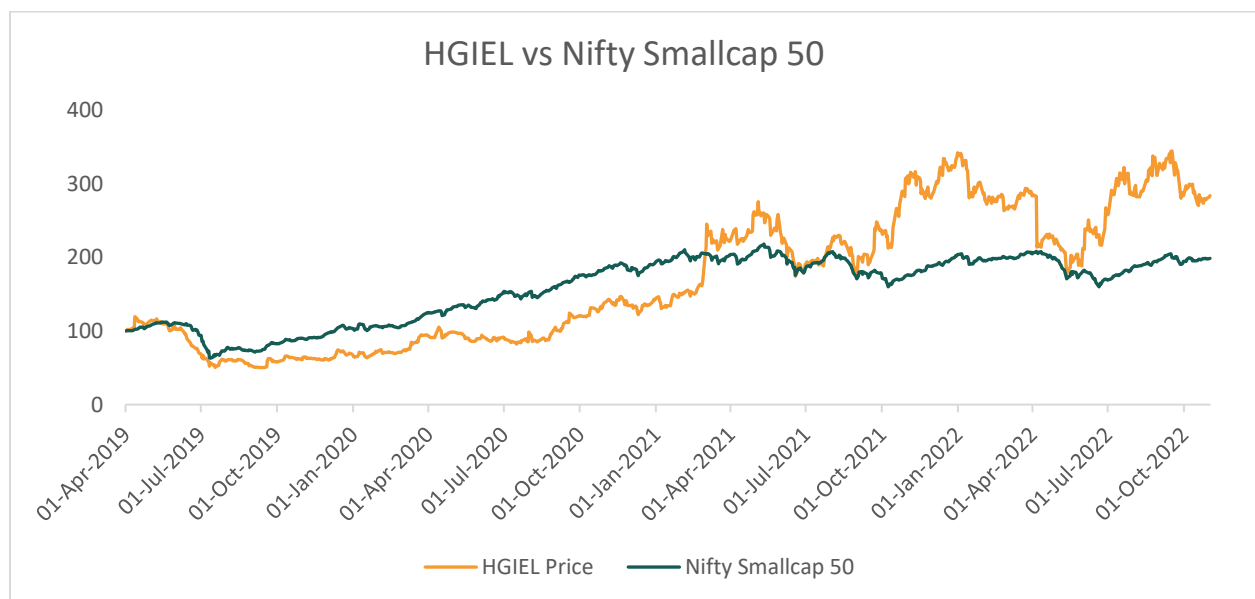
### DILIP BUILDCON (DBL)

- Incorporated in 2006 as a private limited company, Bhopal-based DBL is a leading engineering, procurement and construction contractor in the country, engaged in construction of roads, bridges & highways, mining activities, irrigation, airports and metro projects.
- The company has 3yr, 5yr revenue CAGR of 1% and 23% respectively. The company's EBIT margins ranges from 18-21%. The company has guided for Rs. 10000 Cr. revenue for FY23 with 12-13% EBITDA margin. The company will be reducing Rs. 500-600 Cr. debt through asset monetization, in FY23. The Company has strike ratio of nearly 12% for the orders they bid.
- HGIEL has 3yr, 5yr revenue CAGR of 21% and 28 % respectively with EBIT margin profile of 14-16% over the years. The company gave guidance for FY23 and FY24 of Rs. 4600 Cr. and Rs. 6000 Cr. respectively. We think that HG Infra is better placed for the road Infrastructure story considering its execution strategies and extensive experience of the promoters.

Companies	Order book in roads (in Cr.)
Dilip Buildcon Ltd	10938
H.G. Infra Engineering Ltd	10851

Dilip Buildcon Business segments	Order book (in Cr.)
Roads & Highways	10938
Tunnels	2172
Metro	1558
Mining	5355
Irrigation	4037
Airport	7
Water supply	1400
Special bridges	868

## PRICE HISTORY AND PERFORMANCE



# FINANCIALS

## • PROFIT AND LOSS STATEMENT

(All figures are in crores unless mentioned otherwise)

P & L	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Sales	471.05	365.08	740.88	1056.03	1392.73	2014.50	2217.07	2609.72	3751.43
Total Expenditure	420.21	321.11	662.76	931.86	1185.57	1709.98	1861.97	2126.52	3041.87
Gross Profit	227.30	245.41	457.80	647.16	846.49	1122.56	1324.43	1424.07	1961.56
GPM (%)	48.25	67.22	61.79	61.28	60.78	55.72	59.74	54.57	52.29
EBITDA	52.74	46.48	80.53	127.85	212.74	316.04	369.20	490.59	717.42
EBITDAM (%)	11.20	12.73	10.87	12.11	15.27	15.69	16.65	18.80	19.12
EBIT	39.36	29.34	62.20	102.25	158.82	240.58	293.56	406.15	632.32
EBITM (%)	8.35	8.04	8.39	9.68	11.40	11.94	13.24	15.56	16.86
PBT	25.79	13.51	46.20	83.38	118.76	191.55	233.79	311.99	514.62
PAT	17.17	9.22	30.18	53.42	84.26	124.49	169.47	236.65	380.04
PATM(%)	3.65	2.53	4.07	5.06	6.05	6.18	7.64	9.07	10.13

Source- Ace Equity, Kamayakya research

## • FUND FLOW ANALYSIS

(All figures are in crores unless mentioned otherwise)

Sources of Funds	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Profit	30.56	26.37	48.52	79.02	138.18	199.94	245.10	321.09	465.14
Equity Paid Up	15.25	15.25	18.02	18.02	65.17	65.17	65.17	65.17	65.17
Reserves and Surplus	64.55	69.18	104.53	158.12	475.69	597.81	761.10	997.40	1370.80
Net Worth	79.80	84.43	122.55	176.14	540.86	662.98	826.27	1062.57	1435.98
Total Debt	72.25	73.15	122.72	203.66	434.16	380.38	516.43	766.51	1183.24
Capital Employed	152.05	157.59	245.27	379.80	975.02	1043.36	1342.69	1829.08	2619.21
Application of Funds	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross Block	136.78	148.88	198.60	229.72	490.40	614.90	700.24	766.26	814.11
Investments	0.00	0.00	0.00	0.00	0.00	2.85	0.00	0.00	8.64
Cash and Bank balance	2.98	4.72	4.35	48.26	228.93	100.24	115.03	262.61	164.50
Net Current Assets	-20.48	-0.92	12.19	36.11	248.58	282.54	493.06	772.42	938.11
Total Current Liabilities	134.90	129.81	237.85	327.55	811.16	850.40	1170.26	1044.38	969.99
Total Assets	222.12	238.71	397.44	594.45	1519.45	1622.51	2282.65	2746.32	3392.18

Source- Ace Equity, Kamayakya research

## • CASH FLOW STATEMENT

(All figures are in crores unless mentioned otherwise)

Cash Flow	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Flow from Operations	38.42	33.69	29.47	64.39	-7.78	65.57	35.70	70.55	-321.80
Cash Flow from Investing activities	-3.44	-17.02	-66.19	-113.73	-446.20	9.33	-85.36	-102.58	-65.64
Cash Flow from Finance activities	-33.69	-14.92	36.34	62.01	443.36	-78.20	71.12	151.59	292.53
Free Cash flow	32.80	5.61	-53.26	-74.93	-296.76	-121.00	-120.54	-101.99	-518.90

Source- Ace Equity, KamayaKya research

## • QUATERLY P & L

(All figures are in crores unless mentioned otherwise)

P & L	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Sales</b>	634.12	311.87	483.35	750.74	1059.24	943.28	785.15	951.44	1064.69	1105.90	795.70
COGS	238.06	140.68	244.61	337.58	462.78	456.74	389.56	439.01	506.60	551.48	388.77
<b>Gross Profit</b>	396.06	171.20	238.73	413.16	596.46	486.54	395.59	512.43	558.09	554.43	406.94
<b>GPM (%)</b>	62.46	54.89	49.39	55.03	56.31	51.58	50.38	53.86	52.42	50.13	51.14
<b>Operating Costs</b>	287.13	110.21	148.05	281.81	400.80	308.76	240.85	334.22	365.60	355.41	245.86
<b>EBITDA</b>	108.93	60.98	90.69	131.36	195.66	177.79	154.74	178.21	192.49	199.01	161.08
<b>EBDTAM (%)</b>	17.18	19.55	18.76	17.50	18.47	18.85	19.71	18.73	18.08	18.00	20.24
Depreciation	20.82	19.47	20.84	21.57	22.55	20.31	21.28	21.65	21.86	20.15	24.12
<b>EBIT</b>	88.11	41.51	69.84	109.79	173.10	157.48	133.46	156.55	170.64	178.87	136.96
<b>EBDTM</b>	13.89	13.31	14.45	14.62	16.34	16.69	17.00	16.45	16.03	16.17	17.21
Other Income	1.83	2.65	1.49	3.44	4.32	1.45	1.37	8.81	2.57	3.36	4.10
<b>Other Income</b>	1.83	2.65	1.49	3.44	4.32	1.45	1.37	8.81	2.57	3.36	4.10
Interest	17.82	18.18	20.65	24.41	30.91	25.78	27.82	29.64	34.46	33.93	33.49
<b>EBT</b>	72.12	25.99	50.68	88.82	146.51	133.14	107.01	135.72	138.75	148.29	107.56
<b>EBTM (%)</b>	11.37	8.33	10.48	11.83	13.83	14.11	13.63	14.26	13.03	13.41	13.52
Tax	17.80	6.05	12.83	21.06	35.40	32.12	32.50	35.17	34.80	39.01	25.87
<b>Profit after tax</b>	54.32	19.93	37.85	67.76	111.11	101.02	74.51	100.56	103.95	109.28	81.69
<b>PATM (%)</b>	8.57	6.39	7.83	9.03	10.49	10.71	9.49	10.57	9.76	9.88	10.27

- QUATERLY P & L Analysis

(All figures are in crores unless mentioned otherwise)

Particular	Q2FY23	Q1FY23	QOQ	Q2FY22	YOY
<b>Net Sales</b>	<b>795.7</b>	<b>1105.9</b>	-28.05%	<b>785.1</b>	1.34%
(Increase) / Decrease In Stocks	0.0	0.0		0.0	
Cost of Services & Raw Materials	388.8	551.5	-29.50%	389.6	-0.20%
Purchase of Finished Goods	0.0	0.0		0.0	
COGS	388.8	551.5	-29.50%	389.6	-0.20%
<b>Gross Profit</b>	<b>406.9</b>	<b>554.4</b>	-26.60%	<b>395.6</b>	2.87%
<b>GPM</b>	<b>51.1</b>	<b>50.1</b>		<b>50.4</b>	
	0.0	0.0		0.0	
Operating & Manufacturing Expenses	204.1	317.2	-35.66%	209.2	-2.45%
Employee Cost	41.7	38.2	9.34%	31.6	32.09%
<b>Operating Costs</b>	<b>245.9</b>	<b>355.4</b>	-30.82%	<b>240.8</b>	2.08%
<b>EBITDA</b>	<b>161.1</b>	<b>199.0</b>	-19.06%	<b>154.7</b>	4.09%
<b>EBDTAM</b>	<b>20.2</b>	<b>18.0</b>		<b>19.7</b>	
	0.0	0.0		0.0	
Depreciation	24.1	20.1	19.74%	21.3	13.35%
<b>EBIT</b>	<b>137.0</b>	<b>178.9</b>	-23.43%	<b>133.5</b>	2.62%
<b>EBDTM</b>	<b>17.2</b>	<b>16.2</b>		<b>17.0</b>	1.26%
	0.0	0.0		0.0	
Other Income	4.1	3.4	21.98%	1.4	199.34%
Profit On Sale Of Assets	0.0	0.0		0.0	
<b>Other Income</b>	<b>4.1</b>	<b>3.4</b>	21.98%	<b>1.4</b>	199.34%
Interest	33.5	33.9	-1.31%	27.8	20.38%
<b>EBT</b>	<b>107.6</b>	<b>148.3</b>	-27.47%	<b>107.0</b>	0.51%
<b>EBTM</b>	<b>13.5</b>	<b>13.4</b>		<b>13.6</b>	
Tax	25.9	39.0	-33.69%	32.5	-20.41%
<b>Profit after tax</b>	<b>81.7</b>	<b>109.3</b>	-25.24%	<b>74.5</b>	9.64%
<b>PATM</b>	<b>10.3</b>	<b>9.9</b>		<b>9.5</b>	

Source- Ace Equity, KamayaKya research

## RATIO ANALYSIS

Financial ratios	2014	2015	2016	2017	2018	2019	2020	2021	2022
Earnings Per Share (Rs)	7.15	3.04	19.62	29.64	12.93	19.54	25.57	36.31	58.31
Adjusted EPS (Rs.)	2.38	1.01	6.54	9.88	12.93	19.54	25.57	36.31	58.31
CEPS(Rs)	6.68	5.76	8.98	14.62	21.20	30.68	37.61	49.27	71.37
DPS(Rs)	0.00	0.00	0.00	0.00	0.50	0.50	0.00	0.80	1.00
Adj DPS(Rs)	0.00	0.00	0.00	0.00	0.50	0.50	0.00	0.80	1.00
Book Value (Rs)	52.33	55.37	68.01	97.74	82.99	101.73	126.78	163.04	220.34
Adjusted Book Value (Rs)	17.44	18.46	22.67	32.58	82.99	101.73	126.78	163.04	220.34
Tax Rate (%)	33.43	31.76	34.67	35.93	29.05	35.01	27.51	24.15	26.15
Dividend Pay Out Ratio(%)	0.00	0.00	0.00	0.00	3.87	2.56	0.00	2.20	1.71
GPM (%)	48.25	67.22	61.79	61.28	60.78	55.72	59.74	54.57	52.29
EBIDTM (%)	11.20	12.73	10.87	12.11	15.27	15.69	16.65	18.80	19.12
EBITM (%)	8.35	8.04	8.39	9.68	11.40	11.94	13.24	15.56	16.86
Pre-Tax Margin (%)	5.48	3.70	6.24	7.90	8.53	9.51	10.55	11.96	13.72
PATM (%)	3.65	2.53	4.07	5.06	6.05	6.18	7.64	9.07	10.13
CPM (%)	6.49	7.22	6.55	7.48	9.92	9.93	11.06	12.30	12.40
ROA (%)	7.73	4.00	9.49	10.77	7.97	7.92	8.68	9.41	12.38
ROE (%)	21.52	11.23	29.16	35.77	23.50	20.68	22.76	25.06	30.42
ROCE (%)	25.88	18.95	30.88	32.72	23.45	23.84	24.61	25.61	28.43

Efficiency ratios	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Turnover(x)	2.12	1.58	2.33	2.13	1.32	1.28	1.14	1.04	1.22
Inventory Turnover(x)	22.98	17.27	22.69	22.77	17.86	18.08	20.01	19.08	21.34
Debtors Turnover(x)	16.25	10.27	11.00	7.72	4.56	3.86	3.41	4.12	6.16
Fixed Asset Turnover (x)	3.44	2.56	4.26	4.93	3.87	3.65	3.37	3.56	4.75
Fixed Capital/Sales(x)	0.29	0.39	0.23	0.20	0.26	0.27	0.30	0.28	0.21
Receivable days	22.46	35.53	33.19	47.28	79.98	94.58	106.97	88.58	59.21
Inventory Days	15.88	21.14	16.09	16.03	20.44	20.19	18.24	19.13	17.10
Payable days	45.73	90.24	51.48	61.67	122.38	127.98	181.93	147.50	86.32
Cash conversion cycle	-7.38	-33.57	-2.20	1.63	-21.96	-13.22	-56.72	-39.80	-10.01

Source- Ace Equity, KamayaKya research

Growth Ratios	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Sales Growth(%)	0.00	-22.50	102.94	42.54	31.88	44.64	10.06	17.71	43.75
Core EBITDA Growth(%)	0.00	-11.87	73.25	58.76	66.39	48.56	16.82	32.88	46.24
EBIT Growth(%)	0.00	-25.46	112.01	64.40	55.32	51.48	22.02	38.35	55.69
PAT Growth(%)	0.00	-46.29	227.29	76.98	57.75	47.74	36.13	39.65	60.59
Adj. EPS Growth(%)	0.00	-57.45	545.02	51.11	30.85	51.12	30.84	42.04	60.59

Liquidity ratio	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current Ratio(x)	0.85	0.99	1.05	1.11	1.31	1.33	1.42	1.74	1.97
Quick Ratio(x)	0.70	0.83	0.87	0.96	1.17	1.20	1.33	1.58	1.78

Solvency ratio	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Debt/Equity(x)	0.91	0.87	1.00	1.16	0.80	0.57	0.63	0.72	0.82
Interest Cover(x)	2.90	1.85	3.89	5.42	3.96	4.91	4.91	4.31	5.37
Total Debt/Mcap (x)	0.00	0.00	0.00	0.00	0.22	0.21	0.46	0.40	0.33

Valuation ratios	2014	2015	2016	2017	2018	2019	2020	2021	2022
Adjusted PE (x)	0.00	0.00	0.00	0.00	23.13	14.49	6.70	8.19	9.54
PCE(x)	0.00	0.00	0.00	0.00	14.11	9.23	4.55	6.04	7.80
Price / Book Value(x)	0.00	0.00	0.00	0.00	3.60	2.78	1.35	1.82	2.53
Dividend Yield(%)	0.00	0.00	0.00	0.00	0.17	0.18	0.00	0.27	0.18
EV/Net Sales(x)	0.18	0.23	0.18	0.16	1.55	1.06	0.68	0.94	1.24
EV/EBITDA(x)	1.60	1.80	1.69	1.36	10.13	6.73	4.11	4.98	6.48
EV/EBIT(x)	2.15	2.85	2.19	1.70	13.57	8.83	5.17	6.01	7.35
EV/CE(x)	0.38	0.35	0.34	0.29	1.42	1.31	0.66	0.89	1.37
M Cap / Sales	0.00	0.00	0.00	0.00	1.40	0.92	0.50	0.74	0.97
High PE	0.00	0.00	0.00	0.00	26.99	26.52	15.37	11.65	14.88
Low PE	0.00	0.00	0.00	0.00	23.97	9.14	5.95	6.04	7.03

Source- Ace Equity, KamayaKya research

Cash Flow ratios	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Flow Per share	25.19	22.09	16.35	35.73	-1.19	10.06	5.48	10.83	-49.38
Price to Cash Flow Ratio	0.00	0.00	0.00	0.00	-250.71	28.14	31.27	27.48	-11.27
Free Cash Flow per Share	21.51	3.68	-29.55	-41.58	-45.54	-18.57	-18.50	-15.65	-79.62
Price to Free Cash Flow	0.00	0.00	0.00	0.00	-6.57	-15.25	-9.26	-19.01	-6.99
Free Cash Flow Yield	0.00	0.00	0.00	0.00	-0.15	-0.07	-0.11	-0.05	-0.14
Sales to cash flow ratios	12.26	10.84	25.14	16.40	-179.13	30.72	62.11	36.99	-11.66

Du Pont analysis	2014	2015	2016	2017	2018	2019	2020	2021	2022
PATM (%)	3.86	2.75	4.24	5.06	6.05	6.15	7.55	8.32	9.37
Sales / Total Assets(x)	1.92	1.41	2.17	2.10	1.32	1.28	1.17	1.16	1.53
Assets to Equity (x)	3.11	2.89	3.17	3.37	2.95	2.61	2.53	2.36	1.97
ROE (%)	23.10	11.23	29.16	35.77	23.50	20.59	22.38	22.76	28.27

Source- Ace Equity, KamayaKya research



## FINANCIAL SHENANIGANS

(All figures are in crores unless mentioned otherwise)

Year	2018	2019	2020	2021	2022	CAGR	Remark
Net Sales	1392.73	2014.50	2217.07	2609.72	3751.43	22%	
Trade Receivables	429.43	614.57	684.91	581.74	635.40	8%	
Trade Receivables as % of sales	31%	31%	31%	22%	17%	-11%	Grown slower than sales
Inventories	106.75	116.10	105.53	168.01	183.55	11%	Grown slower than sales
Contingent Liabilities	3.25	3.25	4.06	4.48	3.25		
Equity	540.86	662.98	826.27	1062.57	1435.98		
Contingent Liabilities as % of equity	0.01	0.00	0.00	0.00	0.00		Negligible
Director's remuneration	3.48	3.64	3.62	3.96	4.65	6%	Renumeration as % of Net profit has been on a decreasing trend
PAT	84.26	124.49	169.47	236.65	380.04	35%	
Director's remuneration as % of PAT	4%	3%	2%	2%	1%		
Auditor fees	0.78	0.57	0.66	0.94	0.82		
Auditor fees as % of sales	0.06%	0.03%	0.03%	0.04%	0.02%		Negligible

Source- Ace Equity, KamayaKya research

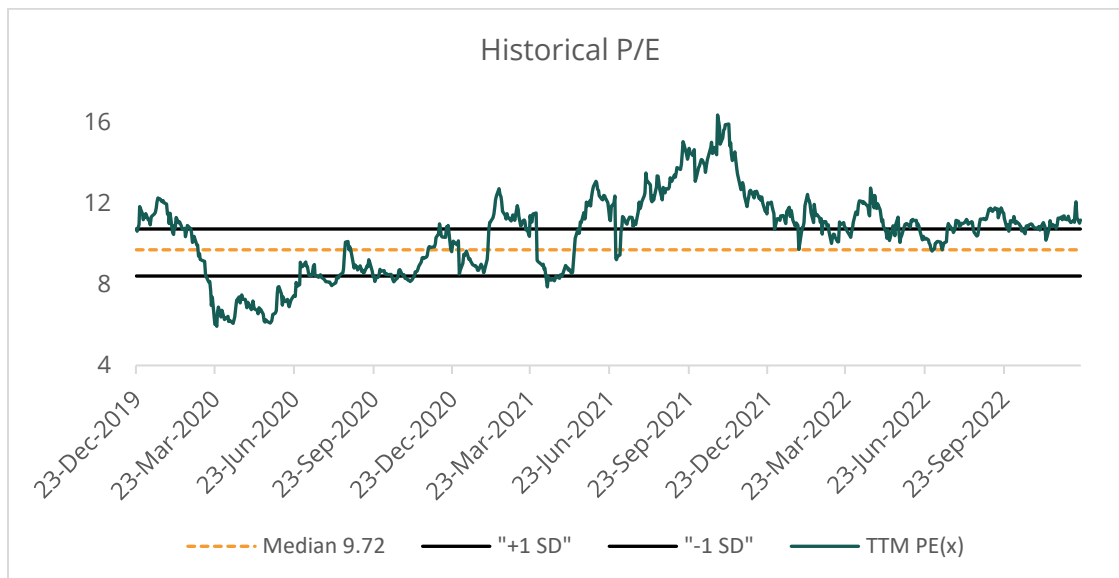
# VALUATIONS

(All figures are in crores unless mentioned otherwise)

P & L	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	1392.73	2014.50	2217.07	2609.72	3751.43	4600.00	5700.00
Total Expenditure	1185.57	1709.98	1861.97	2126.52	3041.87	3739.11	4633.24
EBITDA	212.74	316.04	369.20	490.59	717.42	874.00	1083.00
EBITDAM (%)	15.27	15.69	16.65	18.80	19.12	19.00	19.00
EBIT	158.82	240.58	293.56	406.15	632.32	736.00	912.00
EBITM (%)	11.40	11.94	13.24	15.56	16.86	16.00	16.00
PAT	84.26	124.49	169.47	236.65	380.04	391.00	484.50
PATM (%)	6.05	6.18	7.64	9.07	10.13	8.50	8.50

As on 22<sup>nd</sup> December 2022

Expected FY24 P/E	9.2
PAT	484.50
Current M-cap	3620
CMP	556.2
Expected M-cap	4433
Target price	681
Upside	22.46%



- Going forward, we estimate 23% revenue CAGR till FY24, driven by revenue recognition in major EPC projects (Ganga Expressway). We expect HGIEL to post a PAT CAGR of ~16% during FY22-24E driven by the cost efficiencies. Currently, HGIEL is trading at a 9.18x PE multiple, we assign a FY24E PE multiple of 9.2x. We arrive at a target price of Rs. 681, which represents an upside of 22.46% from CMP, which we believe can be achieved within 12 months.

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