

Retail Equity Research

H.G. Infra Engineering Ltd.

Infrastructure

BSE CODE : 541019

NSE CODE: HGINFRA

BLOOMBERG CODE: HGINFRA:IN

SENSEX : 65,783

BUY

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 951 TARGET Rs. 1,137 RETURN 20% ↑

(Closing: 02-08-23)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Order inflow remains the key catalyst...

HG Infra Engineering Ltd. (HG Infra) is one of the emerging EPC players in India, with over two decades of rich experience in road construction. It is primarily engaged in roads and allied sectors like flyovers, bridges, and irrigation.

- HG Infra reported better revenue growth of 19% YoY in Q1FY24, 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 16.1%.
- The order book remains healthy of Rs. 11,675cr (2.5x TTM revenue), provides revenue visibility for the next 2 to 3 years.
- However, the company marginally reduced order inflow guidance to Rs7,000cr to Rs8,000cr in FY24 from Rs9,000cr due to delay in project approvals from NHAI.
- We increase our FY24/FY25 earnings estimates by 10%/8% respectively, on account of better operational performance.
- With a strong order book and healthy margin profile, we revise our rating to BUY and value the standalone business at a P/E of 12x FY25E and HAM projects at 0.8x P/BV with a TP of Rs.1,137.

Execution picking up pace...

In Q1FY24, revenue grew by 19.3% YoY to Rs1,271cr, led by a pickup in execution in HAM projects. Revenue visibility is likely to improve further, aided by the upcoming NHAI and state EPC project pipelines. Strong execution coupled with benign raw material prices has helped to improve gross margin by 519bps YoY to 16.1% in Q1FY24. However, an increase in employee costs (90% YoY) and higher other expenses (28% YoY) restrict EBITDA margin expansion by 86bps to 16.1%. The management expects revenue to increase by 20% YoY to Rs 5,400cr in FY24. We increase our FY24/FY25 revenue estimates by 5%/4%, respectively, as most of the projects are in the execution stage and there is no major hindrance to land acquisition.

Order book looks robust...

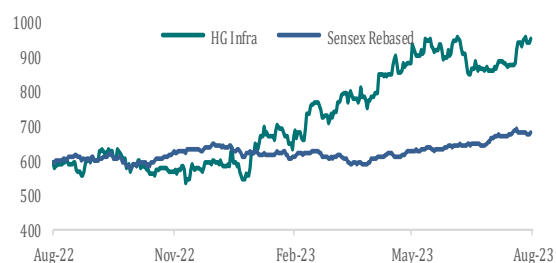
HG Infra's order book remains healthy at Rs 11,675cr, which is 2.5x its trailing twelve-month revenue and provides revenue visibility in the coming years. Further, as part of its growth strategy, the company aims to diversify its order book by considering bids for projects in the railways (track laying), Water Infra (pipeline laying), and airports (runways/taxiways) sectors. The management is looking to add 30%-35% of orders from the non-road segment in two to three years. In May'23, the company entered into an agreement to sell 4 HAM projects with an enterprise value of Rs 1,390cr and an equity value of Rs530cr at 1.57x PBV. The total equity investments in HAM projects stand at Rs 1,600cr out of which the company has already infused Rs760cr and is expected to invest Rs480cr/Rs270cr/Rs150cr by FY24E/FY25E/FY26E.

Valuation & Outlook...

The growing opportunities in road projects and the current order book of 2.5x TTM provide revenue visibility, while benign raw material prices will provide a cushion in margins and profitability. Therefore, we revise our rating to BUY & value standalone business at a P/E of 12x FY25E EPS and HAM projects at 0.8x P/BV with a TP of Rs.1,137.

Company Data			
Market Cap (cr)			₹ 6,198
Enterprise Value (cr)			₹ 6,389
Outstanding Shares (cr)			6.5
Free Float			25.5%
Dividend Yield			0.1%
52 week high			₹ 988
52 week low			₹ 532
6m average volume (cr)			0.3
Beta			1.35
Face value			₹ 10
Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	74.5	74.5	74.5
FII's	0.6	1.3	1.6
MFs/Insti	14.0	14.0	13.1
Public	10.9	10.1	10.7
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	2%	36%	57%
Absolute Sensex	9%	11%	14%
Relative Return*	-6%	25%	43%

*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	4,277	5,487	6,086
Growth (%)	18.3	28.3	10.9
EBITDA	680	861	962
EBITDA Margin(%)	15.9	15.7	15.8
PAT Adj.	397	513	567
Growth (%)	-1.6	29.2	10.6
Adj.EPS	60.9	78.7	87.0
Growth (%)	-1.6	29.2	10.6
P/E	15.6	12.1	10.9
P/B	3.5	2.7	2.2
EV/EBITDA	9.4	7.4	6.6
ROE (%)	25.4	25.5	22.3
D/E	0.2	0.2	0.1

Antu Eapen Thomas
Research Analyst

SOTP Valuation

Particulars	Invested Equity	Value per share	Rationale
Standalone FY25 EPS		1044	P/E12x FY25E EPS
HAM Projects	759	93	0.8x P/BV
Total		1137	

Quarterly Financials (Standalone)

Profit & Loss

Rs (cr)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Sales	1,271	1,066	19.3	1,470	-13.5
EBITDA	205	162	26.0	238	-13.9
EBITDA margins (%)	16.1	15.2	86bps	16.2	-7bps
Depreciation	31	20	54.2	26	19.0
EBIT	174	142	22.1	212	-17.9
Interest	17	14	19.9	19	-8.9
Other Income	4	3	14.7	8	-51.1
Exceptional Items	0	0	-	0	-
PBT	160	131	22.1	200	-20.1
Tax	42	34	24.6	53	-20.6
Reported PAT	118	98	21.3	148	-19.8
Adjustments	0.0	0.0	0.0	0.0	-
Adj PAT	118	98	21.3	148	-19.8
No. of Shares	6.5	6.5		-	
EPS (Rs)	0.3	0.3	21.3	0.3	-19.8

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	5,220	5,859	5,487	6,086	5.1	3.9
EBITDA	804	908	861	962	7.2	5.9
Margins (%)	15.4	15.5	15.7	15.8	30bps	30bps
Adj. PAT	466	523	513	567	10.0	8.4
EPS	71.5	80.2	78.7	87.0	10.0	8.4

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	2,536	3,616	4,277	5,487	6,086
% change	15.4	42.6	18.3	28.3	10.9
EBITDA	453	650	680	861	962
% change	29.5	43.4	4.6	26.7	11.6
Depreciation	84	85	103	115	128
EBIT	369	565	577	746	834
Interest	60	53	55	68	78
Other Income	7.4	6.7	10.0	10.0	11.0
PBT	317	519	532	688	766
% change	34.7	63.8	2.6	29.2	11.4
Tax	72	116	136	175	199
Tax Rate (%)	22.8	22.3	25.5	25.5	26.0
Reported PAT	246	404	397	513	567
Adj*	1	1	0	0	0
Adj PAT	245	403	397	513	567
% change	41.6	64.8	-1.6	29.2	10.6
No. of shares (cr)	6.5	6.5	6.5	6.5	6.5
Adj EPS (Rs.)	37.5	61.8	60.9	78.7	87.0
% change	41.6	64.8	-1.6	29.2	10.6
DPS (Rs.)	0.5	0.8	0.8	0.8	1.0

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Deprn.	402	605	635	803	894
Non-cash adj.	0	-41	81	117	115
Changes in W.C	175	-363	-200	-276	-272
C.F. Operation	563	179	488	603	706
Capital exp.	-98	-68	-251	-80	-50
Change in inv.	-170	-93	-182	-272	-327
Other invest.CF	-2	-12	-4	-1	-2
C.F - Investment	-270	-173	-436	-353	-379
Issue of equity	0	0	0	0	0
Issue/repay debt	-141	-29	175	-108	-88
Dividends paid	0	-5	-5	-5	-7
Other finance.CF	0	0	-6	-11	-5
C.F - Finance	-141	-34	34	-302	-299
Chg. in cash	151	-28	85	-52	28
Closing cash	258	159	244	192	220

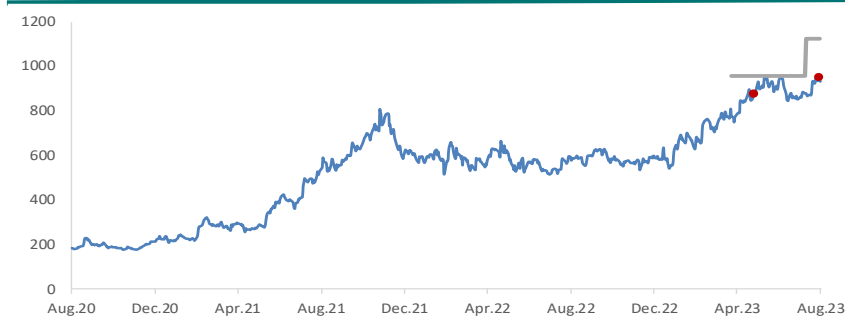
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	258	159	244	192	220
Accounts Receivable	673	700	879	1,127	1,251
Inventories	168	184	222	295	362
Other Cur. Assets	325	494	586	767	950
Investments	261	363	545	817	1,144
Gross Fixed Assets	761	809	1,059	1,139	1,189
Net Fixed Assets	481	448	596	560	482
CWIP	2	2	3	3	3
Intangible Assets	3	2	2	2	2
Def. Tax (Net)	10	11	12	13	14
Other Assets	23	39	45	57	63
Total Assets	2,204	2,402	3,133	3,833	4,491
Current Liabilities	894	777	887	1,112	1,214
Provisions	41	52	53	59	65
Debt Funds	152	205	435	395	385
Other Liabilities	84	4	3	4	4
Equity Capital	65	65	65	65	65
Reserves & Surplus	967	1,299	1,691	2,198	2,759
Shareholder's Fund	1,032	1,364	1,756	2,263	2,824
Total Liabilities	2,204	2,402	3,133	3,833	4,491
BVPS (Rs.)	158	209	269	347	433

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	17.9	18.0	15.9	15.7	15.8
EBIT margin (%)	14.5	15.6	13.5	13.6	13.7
Net profit mgn.(%)	9.7	11.2	9.3	9.3	9.3
ROE (%)	26.5	33.7	25.4	25.5	22.3
ROCE (%)	24.6	31.0	23.7	23.9	22.0
W.C & Liquidity					
Receivables (days)	108.0	69.3	67.4	66.7	71.3
Inventory (days)	19.7	17.7	17.3	17.2	19.7
Payables (days)	173.0	101.4	92.9	89.6	95.8
Current ratio (x)	1.4	1.8	1.8	1.8	2.0
Quick ratio (x)	0.9	1.0	1.1	1.0	1.0
Turnover & Leverage					
Gross asset T.O (x)	3.5	4.6	4.6	5.0	5.2
Total asset T.O (x)	1.2	1.6	1.5	1.6	1.5
Int. coverage ratio (x)	6.2	10.7	10.5	11.0	10.7
Adj. debt/equity (x)	0.2	0.2	0.2	0.2	0.1
Valuation					
EV/Sales (x)	2.3	1.6	1.5	1.2	1.0
EV/EBITDA (x)	13.0	9.1	9.4	7.4	6.6
P/E (x)	25.3	15.4	15.6	12.1	10.9
P/BV (x)	6.0	4.5	3.5	2.7	2.2

Recommendation Summary (3year chart)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
27-Apr-2023	HOLD	960
03-Aug-2023	BUY	1,137

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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