

HG Infra Engineering Ltd

Robust execution; OB diversification on track

HG infra reported good set of numbers for 3QFY24 driven by better than expected execution. Company has closed the first tranche (3 projects) of its asset monetization for a consideration of Rs3.7bn and gain of Rs1.6bn (Valuation multiple of 1.55x P/B). Monetization is expected to be completed by March 2024 thereby unlocking the much needed growth capital in the near term. NHA tendering is expected to be muted as code of conduct would kick-in by the end of FY24. However, company's focus to diversify into non-road projects (target of 25%-30% of OB from non-road projects by FY25/FY26) would help to achieve its order inflow target. HG's robust executable OB coupled with its asset monetization, provides greater comfort for future growth. We value HG Infra based on SOTP method wherein we have valued EPC business at 12x Sep25 PAT and asset business as 0.8x P/B to arrive at our target price of Rs1,218 (unchanged).

3QFY24 result highlights

HG Infra reported good set of numbers driven by better than expected execution in 3Q. Revenue at Rs13.5bn is up 19% YoY and 8% ahead of our estimate. EBITDA at Rs2.1bn is up 13% YoY and 7.6% ahead. EBITDA margins at 15.9% are stable on QoQ basis and in-line with our estimate. The company had earlier signed SPA to sell its entire shareholding in 4 HAM assets to Highway Infrastructure Trust. During the quarter the company has sold its shareholding in 3 out of 4 assets wherein it has received COD. It has booked gain of Rs1bn in this quarter which is part of extraordinary item.

Orderbook details

Company's orderbook stood at Rs96.2bn with HAM and EPC projects comprising of 37% and 63%, respectively. Order inflow guidance for FY24/FY25- 60bn/80-100bn. Company has bid for projects worth Rs60bn in the railway sector and planning to bid Rs600bn for NHA projects in the next 12-15 months. Company expects Non-roads projects to comprise of 25-30% in FY25/FY26 from 12% now.

First tranche of Asset Monetization completed

Company has closed the first tranche (3 projects) of the transaction for a consideration of Rs3.7bn with a gain of Rs1.6bn. 2nd tranche is expected to be completed by March 24 for a consideration of Rs1.4bn. The sale proceeds from the first tranche are recorded as debtors from SPV. Out of the total equity requirement of Rs13.3bn, company has infused Rs6bn till Dec 2023 in HAM projects. Equity to be invested in FY25 stands at Rs4.6bn.

SOTP based TP of Rs1,218, maintain BUY

We believe that HG infra has the required tenets of a successful EPC player in the country backed by strong execution track record, robust earnings growth and lean balance sheet. We are building in 18%/17% revenue/PAT growth for the company over FY23-25E with 16% EBITDA margins. We have valued the stock based on SOTP method wherein we value EPC business at 12x Sep25 PAT and asset business at 0.8x P/B to arrive at our TP of Rs1,218 (unchanged).

Financial and valuation summary

| YE Mar (Rs mn) | 3QFY24A | 3QFY23A | YoY (%) | 2QFY24A | QoQ (%) | FY24E | FY25E | FY26E |
|-------------------|---------|---------|---------|---------|---------|--------|--------|--------|
| Revenues | 13,464 | 11,312 | 19.0 | 8,695 | 54.9 | 53,837 | 61,385 | 69,425 |
| EBITDA | 2,142 | 1,893 | 13.2 | 1,384 | 54.8 | 8,635 | 9,708 | 9,758 |
| EBITDA margin (%) | 15.9 | 16.7 | (4.9) | 15.9 | 0.0 | 16.0 | 15.8 | 14.1 |
| Adj. Net profit | 987 | 1,114 | (11.4) | 617 | 60.1 | 5,078 | 5,733 | 5,701 |
| Adj. EPS (Rs) | 15.2 | 17.1 | (11.4) | 9.5 | 60.1 | 77.9 | 88.0 | 87.5 |
| EPS growth (%) | | | | | | 20.5 | 12.9 | (0.6) |
| PE (x) | | | | | | 12.3 | 10.9 | 11.0 |
| EV/EBITDA (x) | | | | | | 7.7 | 6.6 | 6.6 |
| PBV (x) | | | | | | 2.7 | 2.2 | 1.8 |
| RoE (%) | | | | | | 25.1 | 22.4 | 18.3 |
| RoCE (%) | | | | | | 19.5 | 18.2 | 16.7 |

Source: Company, Centrum Broking

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Result Update

India I Infrastructure

05 February, 2024

BUY

Price: Rs960

Target Price: Rs1,218

Forecast return: 27%

Institutional Research

Market Data

| | |
|-----------------------|------------|
| Bloomberg: | HGINFRA IN |
| 52 week H/L: | 1,019/634 |
| Market cap: | Rs62.5bn |
| Shares Outstanding: | 65.2mn |
| Free float: | 25.5% |
| Avg. daily vol. 3mth: | 1,52,874 |

Source: Bloomberg

Changes in the report

| | |
|---------------|--------------------|
| Rating: | BUY; unchanged |
| Target price: | Rs1,218; unchanged |
| EPS: | FY24: 0%; FY25: 0% |

Source: Centrum Broking

Shareholding pattern

| | Dec-23 | Sep-23 | Jun-23 | Mar-23 |
|--------------|--------|--------|--------|--------|
| Promoter | 74.5 | 74.5 | 74.5 | 74.5 |
| FIs | 1.6 | 1.7 | 1.6 | 1.3 |
| DIs | 12.5 | 13.1 | 13.1 | 14.0 |
| Public/other | 11.5 | 10.8 | 10.7 | 10.1 |

Source: BSE

Centrum estimates vs Actual results

| YE Mar (Rs mn) | Centrum Q3FY24 | Actual Q3FY24 | Variance (%) |
|----------------|----------------|---------------|--------------|
| Revenue | 12,443 | 13,464 | 8.2 |
| EBITDA | 1,991 | 2,142 | 7.6 |
| EBITDA margin | 16.0 | 15.9 | |
| PBT | 1,467 | 1,574 | 7.3 |

Source: Bloomberg, Centrum Broking



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Infrastructure

Thesis Snapshot

Estimate revision

| YE Mar (Rs mn) | FY24E | | % chg | FY25E | | % chg |
|-----------------|--------|--------|-------|--------|--------|-------|
| | New | Old | | New | Old | |
| Net Sales | 53,837 | 53,837 | - | 61,385 | 61,385 | - |
| EBITDA | 8,635 | 8,635 | - | 9,708 | 9,708 | - |
| EBITDA margin % | 16.0 | 16.0 | | 15.8 | 15.8 | |
| Adj. PAT | 5,078 | 5,078 | - | 5,733 | 5,733 | - |

Source: Centrum Broking

HG Infra versus NIFTY Midcap 100

| | 1m | 6m | 1 year |
|------------------|-------|-------|--------|
| HGINFRA IN | (7.8) | (4.1) | 50.9 |
| NIFTY Midcap 100 | 0.4 | 24.5 | 26.5 |

Source: Bloomberg, NSE

Key assumptions

| YE Mar | FY24E | FY25E |
|---------------------|--------|--------|
| Order inflows (Rsm) | 50,000 | 90,000 |
| EBITDA Margins (%) | 16.0 | 15.8 |
| Net WC days | 63 | 58 |
| Capex (Rsm) | 1,750 | 1,500 |
| Investments (Rsm) | 3,501 | 1,710 |

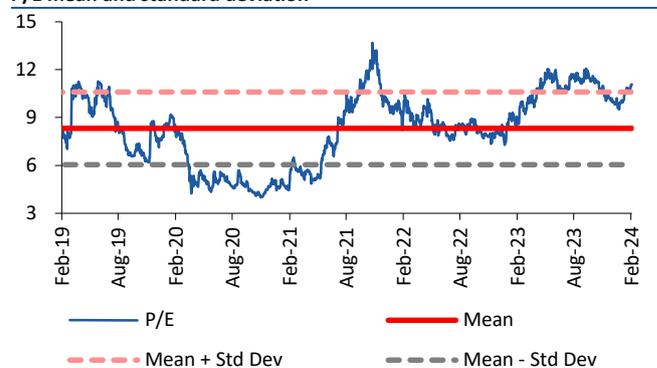
Source: Centrum Broking

Valuations

We are building in 18%/17% revenue/PAT growth for the company over FY23-25E with 16% EBITDA margins. We have valued the stock based on SOTP method wherein we value EPC business at 12x Sep25 PAT and asset business at 0.8x P/B to arrive at our TP of Rs1,218.

| Particulars | Rs mn |
|---------------------------|--------------|
| EPC business Sep25 PAT | 5,717 |
| Target multiple (x) | 12.0 |
| Value (A) | 68,600 |
| Investments in HAM (FY25) | 13,449 |
| P/B multiple (x) | 0.8 |
| Value (B) | 10,759 |
| Toal equity value (A+B) | 79,359 |
| No of shares (mn) | 65.2 |
| Target price (Rs) | 1,218 |

P/E mean and standard deviation



Source: Bloomberg, Centrum Broking

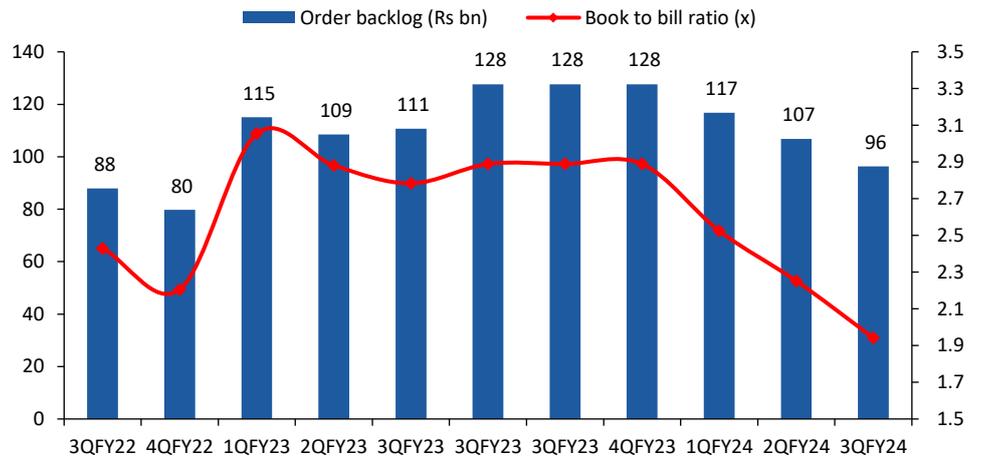
Exhibit 1: HG Infra - Results summary

| In Rs mn | 2Q23 | 3Q23 | 4Q23 | FY23E | 1Q24 | 2Q24 | 3Q24 |
|-------------------------------|--------------|---------------|---------------|---------------|---------------|--------------|---------------|
| Net Sales | 7,521 | 11,312 | 14,696 | 44,185 | 12,713 | 8,695 | 13,464 |
| EBIDTA | 1,208 | 1,893 | 2,377 | 7,103 | 2,048 | 1,384 | 2,142 |
| <i>EBIDTA margin (%)</i> | 16.1 | 16.7 | 16.2 | 16.1 | 16.1 | 15.9 | 15.9 |
| Other income | 34 | 36 | 77 | 181 | 38 | 17 | 25 |
| Depreciation | 241 | 260 | 261 | 963 | 311 | 354 | 367 |
| Interest | 138 | 161 | 190 | 633 | 173 | 216 | 226 |
| PBT | 862 | 1,508 | 2,004 | 5,687 | 1,602 | 831 | 1,574 |
| Tax | 216 | 394 | 528 | 1,474 | 419 | 214 | 587 |
| <i>Effective tax rate (%)</i> | 25.1 | 26.1 | 26.3 | 25.9 | 26.1 | 25.8 | 37.3 |
| Adjusted PAT | 646 | 1,114 | 1,477 | 4,214 | 1,184 | 617 | 987 |
| Extraordinary Items | - | - | - | - | - | - | 1,067 |
| Reported PAT | 646 | 1,114 | 1,477 | 4,214 | 1,184 | 617 | 2,055 |
| EPS | 9.9 | 17.1 | 22.7 | 64.7 | 18.2 | 9.5 | 15.2 |

| yoy growth(%) | | | | | | | |
|---------------|-------|------|-------|-------|------|--------|--------|
| Net sales | (0.2) | 22.6 | 43.2 | 22.2 | 19.3 | 15.6 | 19.0 |
| EBITDA | (3.7) | 24.5 | 51.6 | 21.5 | 26.0 | 14.6 | 13.2 |
| Other income | 128.7 | 70.4 | 190.8 | 131.3 | 14.8 | (50.7) | (29.2) |
| Interest | 10.7 | 28.9 | 18.6 | 19.7 | 19.9 | 56.0 | 40.8 |
| Depreciation | 13.4 | 20.2 | 19.4 | 13.3 | 54.2 | 46.8 | 41.2 |
| PBT | (7.4) | 25.6 | 64.8 | 25.1 | 22.1 | (3.7) | 4.4 |
| Adjusted PAT | (7.5) | 25.4 | 62.1 | 24.4 | 21.2 | (4.6) | (11.4) |

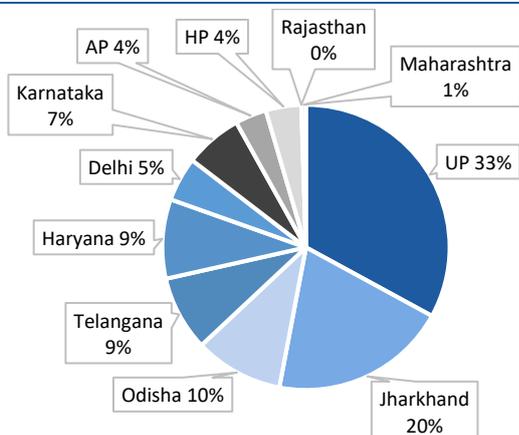
Source: Centrum Broking, Company Data

Exhibit 2: Orderbook at Rs96.2 bn



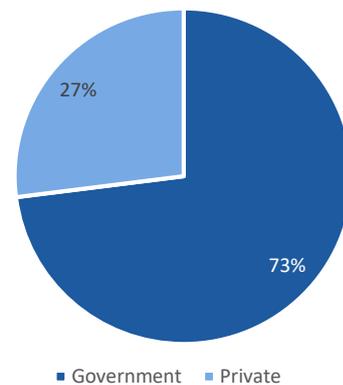
Source: Centrum Broking, Company Data

Exhibit 3: Geographical breakdown of orderbook



Source: Centrum Broking, Company Data

Exhibit 4: OB largely consists of government contracts



Source: Centrum Broking, Company Data

3QFY24 conference call key highlights

Guidance for FY24: FY24- Revenue- 17%-20%. EBITDA Margin – 15.5%-16%.

Order-book and inflow: OB as on Dec 2023 stood at Rs96.2bn. Order inflow guidance for FY24/FY25- 60bn/80-100bn. Company has bid for projects worth Rs60bn in the railway sector and planning to bid Rs600bn for NHAI projects in the next 12-15 months. Company expects Non-roads projects to comprise of 25-30% in FY25/FY26.

Equity requirements: Out of the total equity requirement of Rs13.3bn, company has infused Rs6bn till Dec 2023. Equity to be invested in FY25- 4.6bn and balance over FY26/FY27.

Monetization update of 4 HAM projects: Company has closed the first tranche (3 projects) of the transaction for a consideration of Rs3.7bn with a gain of Rs1.6bn. 2nd tranche is expected to be completed by March 24 for a consideration of Rs1.4bn. The sale proceeds from the first tranche are recorded as debtors from SPV.

Update on execution in large projects: Ganga expressway- 42% completed. Delhi Urban Extension Road- 84% completed as of Dec 2023 and it is expected to be completed by March 2024. The company received AD for Kanpur Railway Project in January 2024.

Debt: Consol Debt/Cash- Rs 13.5bn/Rs 1.4bn. Standalone Debt/Cash- Rs 4.6bn/Rs 1.4bn.

Other: Mobilization advance- Rs3bn, Retention money- Rs1.1bn, Debtors- Rs8.2bn, unbilled revenue- Rs7bn.

Exhibit 5: HAM project portfolio

| Project | Awarding authority | State | Length (km) | BPC (Rsmn) | Grant (Rsmn) | Total Debt (Rsmn) | Total Equity Invested till 31st Dec-23 | Debt as on 31st Dec-23 (Rsmn) |
|---------------------------|--------------------|----------------|-------------|---------------|---------------|-------------------|----------------------------------------|-------------------------------|
| Rewari Bypass Pkg-4 | NHAI | Haryana | 14 | 5,220 | 2,088 | 2,015 | 757 | 1,932 |
| Khammam Devarapalle Pkg-1 | NHAI | Telangana | 34 | 7,721 | 3,088 | 3,100 | 602 | 800 |
| Khammam Devarapalle Pkg-2 | NHAI | Telangana | 30 | 6,371 | 2,548 | 2,560 | 504 | 750 |
| Raipur Visakhapatnam AP-1 | NHAI | Andhra Pradesh | 32 | 10,601 | 4,240 | 4,520 | 968 | 1,750 |
| Raipur Visakhapatnam OD-5 | NHAI | Odisha | 44 | 14,921 | 5,968 | 6,670 | 1,538 | 2,250 |
| Raipur Visakhapatnam OD-6 | NHAI | Odisha | 46 | 11,231 | 4,492 | 5,150 | 968 | 2,200 |
| Karnal Ringroad | NHAI | Haryana | 35 | 9,971 | 3,988 | 4,650 | 670 | - |
| Varanasi Kolkata Pkg-10 | NHAI | Jharkhand | 36 | 13,031 | 5,212 | 6,200 | 2 | - |
| Varanasi Kolkata Pkg-13 | NHAI | Jharkhand | 29 | 9,251 | 3,700 | 4,470 | 2 | - |
| Total | | | | 88,318 | 35,324 | 39,335 | 6,011 | 9,682 |

Source: Centrum Broking, Company Data

Exhibit 6: Valuation Summary

| Particulars | Rs mn |
|---------------------------|--------------|
| EPC business FY25 PAT | 5,717 |
| Target multiple (x) | 12.0 |
| Value (A) | 68,600 |
| Investments in HAM (FY25) | 13,449 |
| P/B multiple (x) | 0.8 |
| Value (B) | 10,759 |
| Toal equity value (A+B) | 79,359 |
| No of shares (mn) | 65.2 |
| Target price (Rs) | 1,218 |

Source: Centrum Broking

| P&L | | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Revenues | 36,152 | 44,185 | 53,837 | 61,385 | 69,425 |
| Operating Expense | 28,682 | 34,475 | 42,100 | 48,187 | 55,748 |
| Employee cost | 1,279 | 1,959 | 2,311 | 2,589 | 2,899 |
| Others | 344 | 649 | 790 | 901 | 1,019 |
| EBITDA | 5,847 | 7,103 | 8,635 | 9,708 | 9,758 |
| Depreciation & Amortisation | 851 | 963 | 1,214 | 1,284 | 1,443 |
| EBIT | 4,996 | 6,140 | 7,421 | 8,424 | 8,315 |
| Interest expenses | 528 | 633 | 881 | 964 | 1,018 |
| Other income | 78 | 181 | 247 | 201 | 321 |
| PBT | 4,546 | 5,687 | 6,787 | 7,661 | 7,618 |
| Taxes | 1,159 | 1,474 | 1,708 | 1,928 | 1,917 |
| Effective tax rate (%) | 25.5 | 25.9 | 25.2 | 25.2 | 25.2 |
| PAT | 3,387 | 4,214 | 5,078 | 5,733 | 5,701 |
| Minority/Associates | 0 | 0 | 0 | 0 | 0 |
| Recurring PAT | 3,387 | 4,214 | 5,078 | 5,733 | 5,701 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 3,387 | 4,214 | 5,078 | 5,733 | 5,701 |
| Ratios | | | | | |
| YE Mar | FY22A | FY23A | FY24E | FY25E | FY26E |
| Growth (%) | | | | | |
| Revenue | 42.6 | 22.2 | 21.8 | 14.0 | 13.1 |
| EBITDA | 39.8 | 21.5 | 21.6 | 12.4 | 0.5 |
| Adj. EPS | 60.6 | 24.4 | 20.5 | 12.9 | (0.6) |
| Margins (%) | | | | | |
| Gross | 20.7 | 22.0 | 21.8 | 21.5 | 19.7 |
| EBITDA | 16.2 | 16.1 | 16.0 | 15.8 | 14.1 |
| EBIT | 13.8 | 13.9 | 13.8 | 13.7 | 12.0 |
| Adjusted PAT | 9.4 | 9.5 | 9.4 | 9.3 | 8.2 |
| Returns (%) | | | | | |
| ROE | 28.3 | 26.8 | 25.1 | 22.4 | 18.3 |
| ROCE | 21.4 | 20.7 | 19.5 | 18.2 | 16.7 |
| ROIC | 29.8 | 29.4 | 29.9 | 30.7 | 31.9 |
| Turnover (days) | | | | | |
| Gross block turnover ratio (x) | 4.4 | 4.3 | 4.4 | 4.5 | 4.4 |
| Debtors | 69 | 65 | 64 | 62 | 59 |
| Inventory | 22 | 22 | 23 | 23 | 25 |
| Creditors | 59 | 62 | 67 | 64 | 61 |
| Net working capital | 87 | 69 | 67 | 73 | 67 |
| Solvency (x) | | | | | |
| Net debt-equity | 0.1 | 0.2 | 0.2 | 0.0 | 0.1 |
| Interest coverage ratio | 11.1 | 11.2 | 9.8 | 10.1 | 9.6 |
| Net debt/EBITDA | 0.6 | 1.0 | 0.9 | 0.6 | 0.2 |
| Per share (Rs) | | | | | |
| Adjusted EPS | 52.0 | 64.7 | 77.9 | 88.0 | 87.5 |
| BVPS | 209.3 | 272.9 | 349.3 | 435.4 | 520.8 |
| CEPS | 65.0 | 79.4 | 96.6 | 107.7 | 109.6 |
| DPS | 1.0 | 1.3 | 1.6 | 1.8 | 2.1 |
| Dividend payout (%) | 1.9 | 1.9 | 2.0 | 2.0 | 2.4 |
| Valuation (x) | | | | | |
| P/E | 10.3 | 9.5 | 12.3 | 10.9 | 11.0 |
| P/BV | 2.6 | 2.2 | 2.7 | 2.2 | 1.8 |
| EV/EBITDA | 6.2 | 6.1 | 7.7 | 6.6 | 6.6 |
| Dividend yield (%) | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |

Source: Company, Centrum Broking

| Balance sheet | | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Equity share capital | 652 | 652 | 652 | 652 | 652 |
| Reserves & surplus | 12,992 | 17,133 | 22,109 | 27,725 | 33,292 |
| Shareholders fund | 13,643 | 17,784 | 22,761 | 28,377 | 33,943 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total debt | 3,147 | 5,037 | 5,500 | 5,100 | 5,200 |
| Non Current Liabilities | 0 | 0 | 0 | 0 | 0 |
| Def tax liab. (net) | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 16,790 | 22,821 | 28,261 | 33,477 | 39,143 |
| Gross block | 8,231 | 10,392 | 12,142 | 13,642 | 15,642 |
| Less: acc. Depreciation | (3,642) | (4,125) | (5,339) | (6,623) | (8,066) |
| Net block | 4,590 | 6,267 | 6,803 | 7,019 | 7,576 |
| Capital WIP | 22 | 719 | 719 | 719 | 719 |
| Net fixed assets | 4,611 | 6,987 | 7,523 | 7,739 | 8,295 |
| Non Current Assets | 0 | 0 | 0 | 0 | 0 |
| Investments | 3,545 | 7,447 | 10,856 | 13,449 | 18,030 |
| Inventories | 1,836 | 2,353 | 2,884 | 3,301 | 4,429 |
| Sundry debtors | 6,995 | 8,791 | 10,030 | 10,763 | 11,793 |
| Cash & Cash Equivalents | 1,585 | 1,794 | 1,769 | 3,848 | 3,144 |
| Loans & advances | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 5,143 | 7,720 | 8,850 | 9,586 | 10,461 |
| Trade payables | 4,355 | 7,437 | 8,074 | 8,845 | 9,928 |
| Other current liab. | 2,569 | 4,835 | 5,576 | 6,363 | 7,081 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Net current assets | 8,634 | 8,387 | 9,883 | 12,290 | 12,819 |
| Total assets | 16,790 | 22,821 | 28,261 | 33,477 | 39,143 |
| Cashflow | | | | | |
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Profit Before Tax | 4,546 | 5,687 | 6,787 | 7,661 | 7,618 |
| Depreciation & Amortisation | 851 | 963 | 1,214 | 1,284 | 1,443 |
| Net Interest | 528 | 633 | 881 | 964 | 1,018 |
| Net Change – WC | (3,882) | 456 | (1,521) | (328) | (1,233) |
| Direct taxes | (1,172) | (1,567) | (1,708) | (1,928) | (1,917) |
| Net cash from operations | 871 | 6,173 | 5,653 | 7,653 | 6,929 |
| Capital expenditure | (613) | (3,339) | (1,750) | (1,500) | (2,000) |
| Acquisitions, net | 0 | 0 | 0 | 0 | 0 |
| Investments | (933) | (3,902) | (3,408) | (2,593) | (4,581) |
| Others | 0 | 0 | 0 | 0 | 0 |
| Net cash from investing | (1,546) | (7,241) | (5,158) | (4,093) | (6,581) |
| FCF | (675) | (1,069) | 495 | 3,560 | 348 |
| Issue of share capital | 0 | 0 | 0 | 0 | 0 |
| Increase/(decrease) in debt | 257 | 1,890 | 463 | (400) | 100 |
| Dividend paid | (65) | (81) | (102) | (117) | (134) |
| Interest paid | (528) | (633) | (881) | (964) | (1,018) |
| Others | 13 | 102 | 0 | 0 | 0 |
| Net cash from financing | (324) | 1,277 | (520) | (1,481) | (1,052) |
| Net change in Cash | (999) | 209 | (25) | 2,079 | (704) |

Source: Company, Centrum Broking

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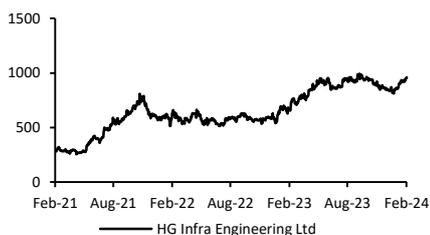
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Source: Bloomberg

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