

# HG Infra Engineering | BUY

## To reap benefits from diversification

HG Infra's (HG) 4QFY24 PAT at INR 1.6bn was in-line with JMFe (consensus: INR 1.57bn) led by higher margins despite lower revenues. HAM monetization is under progress. HG has received INR 3.1bn for 3 HAMs while remainder INR 610mn is to be received by June-24. Monetization of 4<sup>th</sup> HAM is in process for which HG will receive INR 1.3bn by June-24. Order backlog has strengthened to INR 124bn (2.4x TTM revenue) as on Mar-24 led by inflows of INR 43bn in 4Q. Appointed date for 2 HAM projects remains delayed and now is expected in Sept/Nov-24. While HG missed its FY24 inflow target of INR 80bn, it remains confident of inflows of INR 110bn in FY25 backed by NHA's strong bid pipeline and expected inflows from new segments like Railways, Metro and Solar. HG is also planning to diversify into water treatment segment. HG has guided for revenue growth of 15-20% with EBITDA margins of 15-16% in FY25E. We expect 13%/12% revenue/EPS CAGR over FY24-26E. Maintain BUY with a revised price target of INR 1380 (valuing EPC business at 13x FY26E EPS).

- 4Q24 earnings in-line with JMFe:** Revenue/EBITDA grew by 11% each YoY to INR 16.3bn/INR 2.65bn (JMFe: INR 16.8bn/INR 2.67bn). EBITDA margins remained flat YoY at 16.2% (JMFe: 15.9%). Interest costs grew by 3% YoY to INR 195mn (JMFe: INR 230mn). Depreciation grew sharply by 46% YoY to INR 380mn (JMFe: INR 372mn). PAT grew by 8% YoY to INR 1.6bn (in-line).
- Order backlog improves QoQ; guides for revenue growth of 15-20% in FY25E:** HG received inflows of INR 43bn in FY24 taking order backlog to INR 124bn (2.4x TTM revenues). Order backlog is well diversified with Railways/Solar accounting for 21%/10% share. HG expects highway awarding to pick-up post elections given the strong NHA bid pipeline and has guided for order inflows of INR 110bn in FY25E. It expects revenues to grow by 15-20% with EBITDA margins of 15-16% in FY25E.
- Forays into Solar vertical with order wins of INR 13bn:** HG has won multiple projects for EPC and commissioning of Solar power plants in JV with Stockwell Solar Services from Jodhpur Vidyut Vitran Nigam under the KUSUM scheme. TPC is INR 20bn of which HG's EPC scope is INR 13bn. HG will infuse equity of INR 5.4bn in Solar projects over FY25-26E. It has already tied up with two vendors for solar panels at attractive prices and is targeting EBITDA margins of 14-15%. For its portfolio of 10 HAM projects, total equity requirement is INR 14.5bn of which INR 6.9bn is invested till Mar-24. Pending equity of INR 7.7bn is to be invested over FY25-27E. While debt is expected to increase to INR 7.5bn given the substantial equity investments in HAM and solar projects, Net debt including mobilization advances/EBITDA would still be comfortable at 0.9x in FY26E.
- Order backlog strengthens; Maintain BUY:** We like HG for its robust execution track record, strong growth and lean balance sheet. Monetization proceeds from 4 HAM assets will strengthen the balance sheet. We expect 13%/12% revenue/EPS CAGR over FY24-26E. HG trades at an attractive valuation of 11x FY26E EPS (adjusted for value of assets). We value HG's EPC business at 13x FY26E EPS and HAM/Solar assets at INR 248/share (0.7-1x P/B) to arrive at SOTP-based revised price target of INR 1,380. Maintain BUY.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,380
Upside/(Downside)	16.9%
Previous Price Target	1,190
Change	16.0%

### Key Data – HGINFRA IN

Current Market Price	INR1,181
Market cap (bn)	INR77.0/US\$0.9
Free Float	25%
Shares in issue (mn)	65.2
Diluted share (mn)	65.2
3-mon avg daily val (mn)	INR269.2/US\$3.2
52-week range	1,229/805
Sensex/Nifty	72,664/22,055
INR/US\$	83.5

### Price Performance

%	1M	6M	12M
Absolute	10.0	36.5	29.4
Relative*	12.4	22.0	10.5

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	36,152	44,185	51,217	58,905	65,970
Sales Growth (%)	42.6	22.2	15.9	15.0	12.0
EBITDA	5,847	7,103	8,220	9,273	10,122
EBITDA Margin (%)	16.2	16.1	16.0	15.7	15.3
Adjusted Net Profit	3,387	4,214	4,548	5,232	5,678
Diluted EPS (INR)	52.0	64.7	69.8	80.3	87.1
Diluted EPS Growth (%)	60.6	24.4	7.9	15.0	8.5
ROIC (%)	23.9	21.7	19.0	17.6	15.8
ROE (%)	28.3	26.8	22.2	20.1	18.0
P/E (x)	10.3	9.5	12.9	14.7	13.6
P/B (x)	2.6	2.2	2.5	2.7	2.2
EV/EBITDA (x)	6.2	6.1	7.5	8.8	8.1
Dividend Yield (%)	0.2	0.2	0.2	0.1	0.1

Source: Company data, JM Financial. Note: Valuations as of 10/May/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
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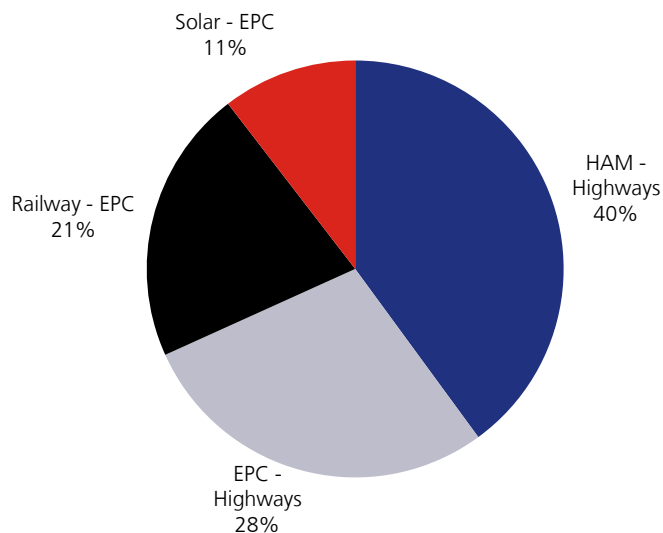
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Standalone Quarterly results**

INR mn	4QFY23	FY23E	1QFY24	2QFY24	3QFY24	4QFY24	4QFY24E	Variance	FY24	FY25E	FY26E
<b>Net Sales</b>	<b>14,696</b>	<b>44,185</b>	<b>12,713</b>	<b>8,695</b>	<b>13,464</b>	<b>16,345</b>	<b>16,816</b>	<b>-2.8%</b>	<b>51,217</b>	<b>58,905</b>	<b>65,970</b>
<b>EBIDTA</b>	<b>2,377</b>	<b>7,103</b>	<b>2,048</b>	<b>1,384</b>	<b>2,142</b>	<b>2,646</b>	<b>2,674</b>	<b>-1.1%</b>	<b>8,220</b>	<b>9,273</b>	<b>10,122</b>
EBIDTA margin (%)	16.2	16.1	16.1	15.9	15.9	16.2	15.9		16.0	15.7	15.3
Other income	77	181	38	17	25	46	57	-20.3%	126	190	220
Depreciation	261	963	311	354	367	380	372	2.3%	1,412	1,559	1,650
Interest	190	633	173	216	226	195	230	-15.6%	810	912	1,104
<b>PBT</b>	<b>2,004</b>	<b>5,687</b>	<b>1,602</b>	<b>831</b>	<b>1,574</b>	<b>2,117</b>	<b>2,130</b>	<b>-0.6%</b>	<b>6,124</b>	<b>6,992</b>	<b>7,588</b>
Tax	528	1,474	419	214	426	518	535	-3.3%	1,576	1,760	1,910
Effective tax rate (%)	26.3	25.9	26.1	25.8	27.0	24.5	25.1		25.7	25.2	25.2
<b>PAT</b>	<b>1,477</b>	<b>4,214</b>	<b>1,184</b>	<b>617</b>	<b>1,148</b>	<b>1,600</b>	<b>1,595</b>	<b>0.3%</b>	<b>4,548</b>	<b>5,232</b>	<b>5,678</b>
Extra-ordinary items	-	-	-	-	907	-	-		907	479	-
<b>Reported PAT</b>	<b>1,477</b>	<b>4,214</b>	<b>1,184</b>	<b>617</b>	<b>2,055</b>	<b>1,600</b>	<b>1,595</b>	<b>0.3%</b>	<b>5,455</b>	<b>5,712</b>	<b>5,678</b>
<b>YoY growth (%)</b>											
Net sales	43.2	22.2	19.3	15.6	19.0	11.2			15.9	15.0	12.0
EBITDA	51.6	21.5	26.0	14.6	13.2	11.3			15.7	12.8	9.1
Other income	190.8	131.3	14.8	(50.7)	(29.2)	(40.8)			(30.2)	50.5	16.3
Interest	18.6	19.7	19.9	56.0	40.8	2.6			28.0	12.6	21.1
Depreciation	19.4	13.3	54.2	46.8	41.2	45.6			46.5	10.5	5.8
PBT	64.8	25.1	22.1	(3.7)	4.4	5.6			7.7	14.2	8.5
Adjusted PAT	62.1	24.4	21.2	(4.6)	3.1	8.3			7.9	15.0	8.5
Reported PAT	62.1	24.4	21.2	(4.6)	84.4	8.3			29.5	4.7	(0.6)

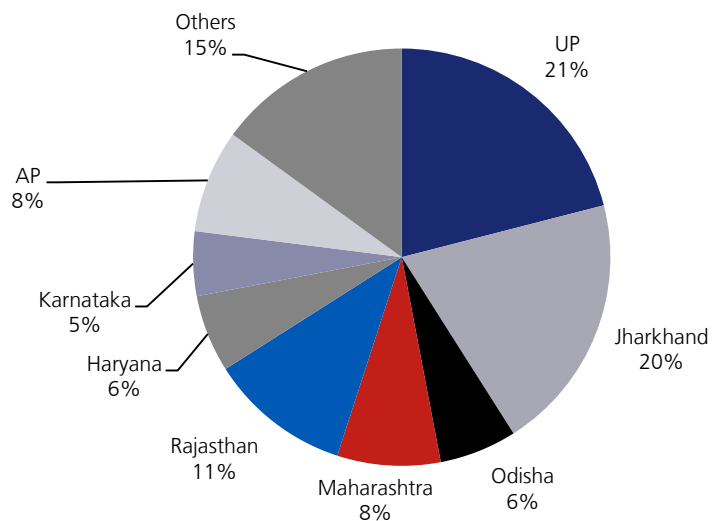
Source: Company, JM Financial

**Exhibit 2. Well diversified order backlog of INR 124bn (Mar-24)**



Source: Company, JM Financial

**Exhibit 3. UP/Jharkhand account for 21%/20% of Mar-24 backlog**



Source: Company, JM Financial

**Exhibit 4. Key assumptions**

INR mn	FY22	FY23	FY24E	FY25E	FY26E
Order inflows	43,258	84,994	43,064	90,000	110,000
EBITDA Margins (%)	16.2	16.1	16.0	15.7	15.3
Net WC days	82	65	84	80	80
Capex	574	2,281	2,486	750	1,000
Investments (net)	933	3,813	1,509	5,050	1,310

Source: Company, JM Financial

**Exhibit 5. Revenue contribution from non-Highways to become material in FY26E**

Segmental revenue mix (INR mn)	Order value	FY25E	FY26E
Highways	84,850	54,311	27,237
Share of total revenue		92%	41%
Railways/Metro	26,507	4,594	10,148
Share of total revenue		8%	15%
Solar	12,983	-	10,456
Share of total revenue		0%	16%
FY25E order inflows	90,000	-	18,129
Share of total revenue		0%	27%
<b>Total</b>		<b>58,905</b>	<b>65,970</b>

Source: Company, JM Financial

**Exhibit 6. SoTP based price target of INR 1,380**

INR mn	Valuation Methodology	Value driver	Multiple (x)	Valuation	INR/share
EPC business	PEx FY26E	5,678	13.0	73,817	1,133
HAM assets*	P/Bx Sept-25E	13,302	1.0	13,302	204
Solar projects	P/Bx Sept-25E	4,050	0.7	2,835	44
<b>Total</b>				<b>87,119</b>	<b>1,380</b>

Source: Company, JM Financial \*excludes 4 HAM assets for which monetization is completed (cashflows partly received and remainder expected in 1QFY25).

**Key conference call takeaways**

- **FY25 Guidance:** Revenue: 15-20% growth to c.INR 60bn (FY24: INR 51bn); EBITDA margins: 15-16% (FY24: 16%); Order inflows: INR 110bn of which Highways: INR 80bn (FY24: INR 43bn); Capex: c.INR 1bn.
- **Asset monetization:** HG received INR 3.1bn for 3 HAM SPVs in FY24 and remainder INR 610mn to be received by June-24. Proceeds of INR 1.3bn from the 4<sup>th</sup> HAM asset to be received by June-24.
- **Solar projects:** TPC: INR 23bn (including GST); EPC value: INR 13bn (HG scope ex-GST); Execution timeline: 18 months; Equity requirement: INR 5.4bn (FY25: INR 2.7bn & FY26: INR 2.7bn). HG has already tied up with 2 vendors for solar panels at attractive prices. HG expects EBITDA margins of 14-15% (including partial pass-through of grant from SPVs).
- **Diversification:** HG will target to diversify in Water treatment and desalination projects and also few more solar projects. HG will target order wins of c.INR 10bn in FY25E in these segments.
- **ADs continue to remain delayed for 2 HAMs:** HG expects to receive AD for VRK Pkg 13 in Sept-24 (earlier: June-24) and VRK Pkg 10 in Nov-24 (earlier: Sept-24).
- **HAM equity requirement:** Total at INR 14.5bn for 10 HAMs; Invested INR 6.9bn till Mar-24. To invest INR 5bn/INR 1.3bn/INR 1.3bn in FY25/26/27E.

## Financial Tables (Standalone)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	36,152	44,185	51,217	58,905	65,970
Sales Growth	42.6%	22.2%	15.9%	15.0%	12.0%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>36,152</b>	<b>44,185</b>	<b>51,217</b>	<b>58,905</b>	<b>65,970</b>
Cost of Goods Sold/Op. Exp	28,682	34,475	39,189	45,139	50,883
Personnel Cost	1,279	1,959	2,882	3,315	3,646
Other Expenses	344	649	927	1,178	1,319
<b>EBITDA</b>	<b>5,847</b>	<b>7,103</b>	<b>8,220</b>	<b>9,273</b>	<b>10,122</b>
EBITDA Margin	16.2%	16.1%	16.0%	15.7%	15.3%
EBITDA Growth	39.8%	21.5%	15.7%	12.8%	9.1%
Depn. & Amort.	851	963	1,412	1,559	1,650
EBIT	4,996	6,140	6,808	7,714	8,472
Other Income	78	181	126	190	220
Finance Cost	528	633	810	912	1,104
PBT before Excep. & Forex	4,546	5,687	6,124	6,992	7,588
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	4,546	5,687	6,124	6,992	7,588
Taxes	1,159	1,474	1,576	1,760	1,910
Extraordinary Inc./Loss(-)	0	0	907	479	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	3,387	4,214	5,455	5,712	5,678
<b>Adjusted Net Profit</b>	<b>3,387</b>	<b>4,214</b>	<b>4,548</b>	<b>5,232</b>	<b>5,678</b>
Net Margin	9.4%	9.5%	8.9%	8.9%	8.6%
Diluted Share Cap. (mn)	65.2	65.2	65.2	65.2	65.2
<b>Diluted EPS (INR)</b>	<b>52.0</b>	<b>64.7</b>	<b>69.8</b>	<b>80.3</b>	<b>87.1</b>
Diluted EPS Growth	60.6%	24.4%	7.9%	15.0%	8.5%
Total Dividend + Tax	65	81	98	98	114
Dividend Per Share (INR)	1.0	1.3	1.5	1.5	1.7

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	4,546	5,687	7,031	7,471	7,588
Depn. & Amort.	851	963	1,412	1,559	1,650
Net Interest Exp. / Inc. (-)	450	452	684	722	884
Inc (-) / Dec in WCap.	-3,882	255	-3,938	-998	-1,328
Others	0	0	0	0	0
Taxes Paid	-1,172	-1,567	-1,751	-1,760	-1,910
<b>Operating Cash Flow</b>	<b>793</b>	<b>5,791</b>	<b>3,438</b>	<b>6,995</b>	<b>6,884</b>
Capex	-613	-3,177	-1,810	-750	-1,000
Free Cash Flow	180	2,614	1,628	6,245	5,884
Inc (-) / Dec in Investments	-933	-3,902	315	-7,661	-5,117
Others	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>-1,546</b>	<b>-7,079</b>	<b>-1,495</b>	<b>-8,411</b>	<b>-6,117</b>
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-65	-81	-98	-98	-114
Inc / Dec (-) in Loans	257	1,890	-525	2,750	300
Others	-437	-312	-1,121	-722	-884
<b>Financing Cash Flow</b>	<b>-245</b>	<b>1,497</b>	<b>-1,743</b>	<b>1,930</b>	<b>-697</b>
<b>Inc / Dec (-) in Cash</b>	<b>-999</b>	<b>208</b>	<b>199</b>	<b>515</b>	<b>69</b>
Opening Cash Balance	2,584	1,585	1,794	1,993	2,508
Closing Cash Balance	1,585	1,794	1,993	2,508	2,577

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shareholders' Fund	13,643	17,784	23,185	28,799	34,363
Share Capital	652	652	652	652	652
Reserves & Surplus	12,992	17,133	22,533	28,147	33,712
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	3,147	5,037	4,512	7,262	7,562
Def. Tax Liab. / Assets (-)	0	280	-375	-375	-375
<b>Total - Equity &amp; Liab.</b>	<b>16,790</b>	<b>23,101</b>	<b>27,322</b>	<b>35,685</b>	<b>41,550</b>
Net Fixed Assets	4,611	7,066	7,464	6,655	6,004
Gross Fixed Assets	8,231	10,512	12,998	13,748	14,748
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	3,620	4,166	5,534	7,093	8,744
Capital WIP	22	719	42	42	42
Investments	3,545	7,447	6,276	14,794	19,911
Current Assets	15,558	20,580	26,041	25,934	28,654
Inventories	1,836	2,353	2,967	3,092	3,485
Sundry Debtors	6,995	8,791	9,177	10,651	11,748
Cash & Bank Balances	1,585	1,794	1,993	2,508	2,577
Loans & Advances	0	0	15	0	0
Other Current Assets	5,143	7,642	11,890	9,683	10,844
Current Liab. & Prov.	6,924	11,992	13,316	11,696	13,019
Current Liabilities	4,355	7,437	9,133	6,802	7,667
Provisions & Others	2,569	4,556	4,183	4,895	5,352
Net Current Assets	8,634	8,588	12,725	14,237	15,635
<b>Total - Assets</b>	<b>16,790</b>	<b>23,101</b>	<b>26,465</b>	<b>35,685</b>	<b>41,550</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Margin	9.4%	9.5%	8.9%	8.9%	8.6%
Asset Turnover (x)	2.4	2.2	2.1	1.9	1.7
Leverage Factor (x)	1.3	1.3	1.2	1.2	1.2
RoE	28.3%	26.8%	22.2%	20.1%	18.0%

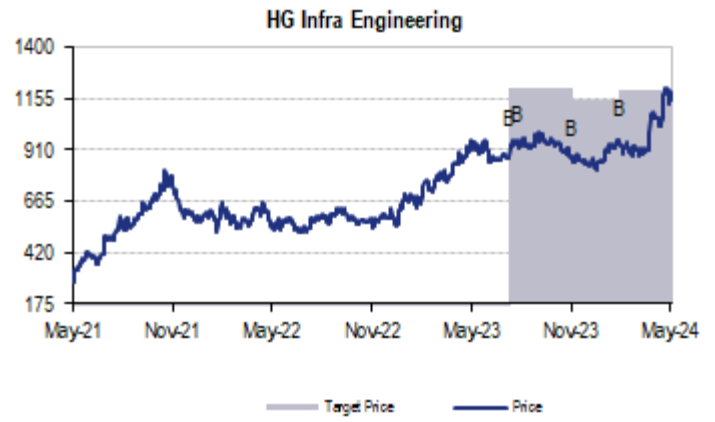
Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
BV/Share (INR)	209.3	272.9	355.8	441.9	527.3
ROIC	23.9%	21.7%	19.0%	17.6%	15.8%
ROE	28.3%	26.8%	22.2%	20.1%	18.0%
Net Debt/Equity (x)	0.1	0.2	0.1	0.2	0.1
P/E (x)	10.3	9.5	12.9	14.7	13.6
P/B (x)	2.6	2.2	2.5	2.7	2.2
EV/EBITDA (x)	6.2	6.1	7.5	8.8	8.1
EV/Sales (x)	1.0	1.0	1.2	1.4	1.2
Debtor days	71	73	65	66	65
Inventory days	19	19	21	19	19
Creditor days	52	73	78	50	50

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
20-Jul-23	Buy	1,200	
1-Aug-23	Buy	1,200	0.0
10-Nov-23	Buy	1,150	-4.1
5-Feb-24	Buy	1,190	3.5

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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