

Retail Equity Research

**H.G. Infra Engineering Ltd.**

Infrastructure

BSE CODE : 541019

NSE CODE: HGINFRA

BLOOMBERG CODE: HGINFRA:IN SENSEX : 79,468

**Accumulate**

12 Months Investment Period

Rating as per Small Cap

**CMP Rs. 1,554 TARGET Rs. 1,788 RETURN 15%** ↑

(Closing: 07-08-2024)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↑

**Strong execution with steady margin...**

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.

- In Q1FY25, HG Infra registered a better than estimated revenue growth of 18% YoY, led by superior execution of projects.
- The order book grew by 34% YoY to Rs. 15,642cr (~3x TTM revenue), providing revenue visibility for the next 2 to 3 years.
- Gross margin improved by 175bps YoY to 55.2%, owing to strong execution and cost control measures, while EBITDA margin remains steady at 16.2%.
- The company maintains an order inflow of Rs 11,000cr to Rs12,000cr in FY25, and we expect the order book to grow at a CAGR of 33% over FY24-FY26E.
- The order inflow pipeline remains healthy and HG Infra expects traction in highways, railways, water and solar orders in FY25
- Therefore, we maintain our Accumulate rating and value the standalone business at a P/E of 17x FY26E and HAM projects at 0.7x P/BV with a TP of Rs.1,788.

**Execution picked up pace...**

In Q1FY25, revenue grew by 18.4% YoY to Rs1,506cr, which is above our estimate due to the pickup in execution of highways and railway projects. We expect the execution to pick up pace in the coming quarters as most of the projects are in the execution stage. The company guided for 15 to 20% of revenue growth in FY25, led by strong execution in road, railway, and solar projects. However, the company has witnessed slow progress in Neelamangala-Tumkur highway EPC projects (Rs681cr unexecuted portion) due to a delay in acquiring further land (~24% execution completed). We, increased our revenue estimate by 2% and 6% respectively for FY25/26. Gross margin during the quarter improved by 175bps YoY to 55.2% due to strong execution, while EBITDA margin remains steady at 16.2%. We expect margins to remain at a strong level of 15.5% to 16% for FY25/FY26 on account of pick-ups in execution.

**Order book to grow at a CAGR of 33% over FY24-FY26E...**

HG Infra's order book remains healthy at Rs 15,642cr in Q1FY25, which is 2.9x TTM revenue and provides revenue visibility in the coming years. The company expects an order inflow of Rs 11,000cr to Rs 12,000cr in FY25. The company has received Rs 4,142cr orders in Q1FY25. The company's order book comprises road (73%), rail (16%), and solar (11%). The management is targeting to increase the non-road projects in FY25 due to the traction seen in solar, railway, and water projects. The majority of the orders are coming from Maharashtra (33%), followed by Jharkhand (15%), UP (13%), Rajasthan (11%), and AP (6%). The total equity investments in HAM projects stand at Rs 728cr and are expected to invest Rs505cr in FY25E. We expect traction in new orders in FY25/FY26E, which will aid its order book to grow at a CAGR of 33% over FY24-FY26E.

**Valuation & Outlook...**

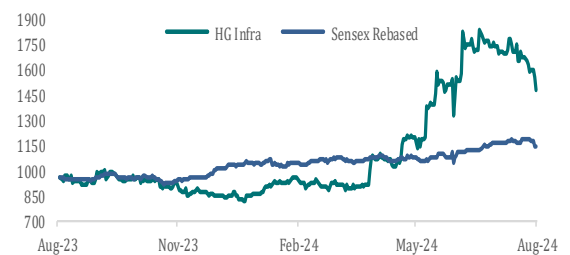
The increasing opportunities in road, solar, railway and solar projects, along with a current order backlog at 2.9x TTM revenue, ensure strong business visibility. The management is prioritizing the diversification of the order book and maintaining a healthy margin profile to drive future growth. We reiterate our Accumulate rating & value standalone businesses at a P/E of 17x FY26E EPS and HAM projects at 0.7x P/BV with a TP of Rs.1,788.

Company Data	
Market Cap (cr)	₹ 10,124
Enterprise Value (cr)	₹ 10,343
Outstanding Shares (cr)	6.5
Free Float	25.5%
Dividend Yield	0.1%
52 week high	₹ 1,880
52 week low	₹ 806
6m average volume (cr)	0.3
Beta	0.73
Face value	₹ 10

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	74.5	74.5	74.5
FII's	1.6	1.7	2.0
MFs/Insti	12.5	12.5	12.1
Public	11.5	11.3	11.3
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	36%	68%	63%
Absolute Sensex	10%	11%	21%
Relative Return*	26%	57%	42%

\*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Sales	5,122	6,093	7,189
Growth (%)	15.9	19.0	18.0
EBITDA	822	963	1,114
EBITDA Margin(%)	16.0	15.8	15.5
PAT Adj.	439	549	655
Growth (%)	4.1	25.1	19.4
Adj.EPS	67.3	84.2	100.6
Growth (%)	4.1	25.1	19.4
P/E	23.1	18.4	15.4
P/B	4.6	3.7	3.0
EV/EBITDA	12.6	10.8	9.3
ROE (%)	27.3	22.1	21.3
D/E	0.2	0.1	0.1

Antu Eapen Thomas  
Research Analyst

## SOTP Valuation

Particulars	Invested Equity	Value per share	Rationale
Standalone FY25 EPS		1709	P/E17x FY26E EPS
HAM Projects	728	78	0.7x P/BV
<b>Total</b>		<b>1788</b>	

## Quarterly Financials (Standalone)

### Profit & Loss

Rs (cr)	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
<b>Sales</b>	<b>1,506</b>	<b>1,271</b>	18.4	<b>1,635</b>	-7.9
<b>EBITDA</b>	<b>243</b>	<b>205</b>	18.8	<b>265</b>	-8.0
EBITDA margins (%)	16.2	16.1	5bps	16.2	-3bps
Depreciation	35	31	12.0	38	-8.5
<b>EBIT</b>	<b>209</b>	<b>174</b>	20.0	<b>227</b>	-8.0
Interest	22	17	27.6	19	13.3
Other Income	3	4	-16.4	5	-30.9
Exceptional Items	0	0	-	0	-
<b>PBT</b>	<b>190</b>	<b>160</b>	18.4	<b>212</b>	-10.4
Tax	50	42	19.7	52	-3.2
<b>Reported PAT</b>	<b>140</b>	<b>118</b>	17.9	<b>160</b>	-12.8
Adjustments	0.0	0.0	0.0	0.0	-
<b>Adj PAT</b>	<b>140</b>	<b>118</b>	17.9	<b>160</b>	-12.8
No. of Shares	6.5	6.5		6.5	
<b>Adj.EPS (Rs)</b>	<b>21.4</b>	<b>18.2</b>	17.9	<b>24.5</b>	-12.8

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,976	6,810	6,093	7,189	2.0	5.6
EBITDA	944	1,055	963	1,114	2.0	5.6
Margins (%)	15.8	15.5	15.8	15.5	0bps	0bps
Adj. PAT	536	613	549	655	2.5	6.9
EPS	82.2	94.1	84.2	100.6	2.5	6.9

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Revenue</b>	<b>3,616</b>	<b>4,419</b>	<b>5,122</b>	<b>6,093</b>	<b>7,189</b>
% change	42.6	22.2	15.9	19.0	18.0
<b>EBITDA</b>	<b>650</b>	<b>710</b>	<b>822</b>	<b>963</b>	<b>1,114</b>
% change	43.4	9.2	15.7	17.1	15.7
Depreciation	85	96	141	151	155
<b>EBIT</b>	<b>565</b>	<b>614</b>	<b>681</b>	<b>811</b>	<b>959</b>
Interest	53	63	81	89	97
Other Income	6.7	18.1	12.6	15.0	18.0
<b>PBT</b>	<b>519</b>	<b>569</b>	<b>719</b>	<b>737</b>	<b>880</b>
% change	63.8	9.6	26.5	2.5	19.4
Tax	116	147	174	188	224
Tax Rate (%)	22.3	25.9	24.2	25.5	25.5
<b>Reported PAT</b>	<b>404</b>	<b>421</b>	<b>545</b>	<b>549</b>	<b>655</b>
Adj*	1	0	107	0	0
<b>Adj PAT</b>	<b>403</b>	<b>421</b>	<b>439</b>	<b>549</b>	<b>655</b>
% change	64.8	4.5	4.1	25.1	19.4
No. of shares (cr)	6.5	6.5	6.5	6.5	6.5
<b>Adj EPS (Rs.)</b>	<b>61.8</b>	<b>64.7</b>	<b>67.3</b>	<b>84.2</b>	<b>100.6</b>
% change	64.8	4.5	4.1	25.1	19.4
DPS (Rs.)	0.8	1.0	1.3	1.5	1.7

### CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Net inc. + Depn.</b>	<b>605</b>	<b>665</b>	<b>860</b>	<b>888</b>	<b>1,035</b>
Non-cash adj.	-41	81	136	125	180
Changes in W.C	-363	-244	-236	-305	-242
<b>C.F. Operation</b>	<b>179</b>	<b>475</b>	<b>709</b>	<b>683</b>	<b>899</b>
Capital exp.	-68	-251	-80	-50	-50
Change in inv.	-93	-182	-272	-327	-458
Other invest.CF	-12	-12	5	-3	-4
<b>C.F - Investment</b>	<b>-173</b>	<b>-444</b>	<b>-348</b>	<b>-380</b>	<b>-511</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	-29	167	-121	-99	-107
Dividends paid	-5	-7	-8	-9	-11
Other finance.CF	0	-7	-6	-9	-10
<b>C.F - Finance</b>	<b>-34</b>	<b>27</b>	<b>-429</b>	<b>-303</b>	<b>-346</b>
Chg. in cash	-28	57	-67	0	41
Closing cash	159	216	149	149	190

### BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	159	216	149	149	190
Accounts Receivable	700	908	1,052	1,252	1,477
Inventories	184	223	248	347	412
Other Cur. Assets	494	605	716	951	1,123
Investments	363	545	817	1,144	1,601
Gross Fixed Assets	809	1,059	1,139	1,189	1,239
Net Fixed Assets	448	602	541	440	334
CWIP	2	3	3	3	3
Intangible Assets	2	2	2	2	2
Def. Tax (Net)	11	12	13	14	14
Other Assets	39	47	54	63	74
<b>Total Assets</b>	<b>2,402</b>	<b>3,163</b>	<b>3,595</b>	<b>4,365</b>	<b>5,230</b>
Current Liabilities	777	893	936	1,165	1,383
Provisions	52	53	50	62	74
Debt Funds	205	435	395	385	375
Other Liabilities	4	3	3	4	5
Equity Capital	65	65	65	65	65
Reserves & Surplus	1,299	1,714	2,145	2,684	3,329
Shareholder's Fund	1,364	1,779	2,210	2,749	3,394
<b>Total Liabilities</b>	<b>2,402</b>	<b>3,163</b>	<b>3,595</b>	<b>4,365</b>	<b>5,230</b>
<b>BVPS (Rs.)</b>	<b>209</b>	<b>273</b>	<b>339</b>	<b>422</b>	<b>521</b>

### RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	18.0	16.1	16.0	15.8	15.5
EBIT margin (%)	15.6	13.9	13.3	13.3	13.3
Net profit mgn.(%)	11.2	9.5	10.7	9.0	9.1
ROE (%)	33.7	26.8	27.3	22.1	21.3
ROCE (%)	31.0	25.3	26.0	22.2	21.8
<b>W.C &amp; Liquidity</b>					
Receivables (days)	69.3	66.4	69.9	69.0	69.3
Inventory (days)	17.7	16.8	16.8	17.8	19.3
Payables (days)	101.4	92.7	97.4	90.2	92.1
Current ratio (x)	1.8	1.8	1.9	2.0	2.0
Quick ratio (x)	1.0	1.1	1.1	1.0	1.0
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.6	4.7	4.7	5.2	5.9
Total asset T.O (x)	1.6	1.6	1.5	1.5	1.5
Int. coverage ratio (x)	10.7	9.7	8.4	9.1	9.9
Adj. debt/equity (x)	0.2	0.2	0.2	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	2.7	2.3	2.0	1.7	1.4
EV/EBITDA (x)	15.2	14.6	12.6	10.8	9.3
P/E (x)	25.1	24.0	23.1	18.4	15.4
P/BV (x)	7.4	5.7	4.6	3.7	3.0

## Recommendation Summary ( Last 3 years)



Dates	Rating	Target
27-Apr-2023	HOLD	960
03-Aug-2023	BUY	1,137
14-Feb-2024	BUY	1,120
18-May-2024	Accumulate	1,611
08-Aug-2024	Accumulate	1,788

Source: Bloomberg, Geojit Research.

## Investment Criteria

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

### 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.

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