

HG Infra Engineering | BUY

Order intake to pick up led by strong bid pipeline

HG Infra's (HG) 2QFY24 PAT at INR 617mn missed estimate of INR 730mn (consensus: INR 790mn) due to lower execution and higher interest costs. Gross debt increased from INR 4bn in Sept-22 to INR 6bn in Sept-23 due to rise in working capital levels. Order backlog moderated QoQ to INR 107bn (2.3x TTM revenue) as on Sept-23. Given the delay in receipt of ADs for few projects, HG lowered its revenue guidance from INR 55-56bn to INR 54bn in FY24. HG also lowered the inflow guidance from INR 70-80bn to INR 50-60bn in FY24 due to nil inflows in YTD. Having said that we expect order inflows to pick up materially in 2H due to INR 700bn bid pipeline in Highways and diversification efforts into Railways & Water. The completion of sale of 4 HAM assets over next 2-6 months should also strengthen the balance sheet. We expect 15% earnings CAGR over FY23-25E and valuations at 10.2x FY25E remains inexpensive. Maintain BUY with a revised price target of INR 1150.

- 2QFY24 earnings missed estimate due to lower revenue and higher interest costs:** Revenue grew by 16% YoY to INR 8.7bn (JMFe: INR 9bn). EBITDA grew by 15% YoY to INR 1.38bn (JMFe: INR 1.4bn) and margins contracted by 20bps YoY to 15.9% (JMFe: 15.6%). Interest costs grew by 56% YoY to INR 216mn (JMFe: INR 200mn) due to rise in debt levels and interest rates. Gross debt increased sharply from INR 4bn in Sept-22 to INR 6bn in Sept-23 due to rise in working capital levels.
- Order backlog moderates due to nil inflows in YTD; lowers inflow guidance:** HG's order backlog moderated QoQ to INR 107bn (2.3x TTM revenue) as on Sept-23. HG has cut its order inflow guidance from INR 70-80bn to INR 50-60bn for FY24 given the nil inflows in YTD. Having said that, bid pipeline is strong at INR 145bn in Railways (submitted bids of INR 65bn already). HG is also bidding for metro and railway station redevelopment projects (submitted 2 bids of INR 10bn and will submit 2 bids of INR 12bn). Given the delay in receipt of ADs for few projects, HG lowered its revenue guidance from INR 55-56bn to INR 54bn with EBITDA margins of 15.5-16% for FY24.
- Monetization on track, to provide growth capital:** HG has signed SPA with KKR to sell 4 HAM assets for equity value of INR 5.3bn (1.55x P/B). It has received approvals from lenders and NHA for 3 HAMs and deal is likely to close by Nov-23 end. For 4th HAM, it will start approval process by Nov-23 end. For its portfolio of 12 HAM assets, total equity requirement stands at INR 16bn of which INR 7.8bn is invested till Sept-23. Balance equity of INR 8.3bn is to be invested by FY26E.
- Order backlog to strengthen led by expected order wins; Maintain BUY:** We like HG for its strong execution track record, robust earnings growth and lean balance sheet. Monetization proceeds from 4 HAMs will further strengthen the balance sheet and provide growth capital. Given the nil order intake in YTD, we have cut FY24/25 earnings estimates by 3.3%/4.7%. We expect 17%/15% revenue/EPS CAGR over FY23-25. The stock trades at an attractive valuation of 10.2x FY25E EPS. We value HG's EPC business at 12x FY25 EPS and HAM assets at INR 128/share (1x P/B) to arrive at SOTP-based revised price target of INR 1,150. Maintain BUY.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,150
Upside/(Downside)	32.8%
Previous Price Target	1,200
Change	-4.1%

Key Data – HGINFRA IN

Current Market Price	INR866
Market cap (bn)	INR56.4/US\$0.7
Free Float	78%
Shares in issue (mn)	65.2
Diluted share (mn)	65.2
3-mon avg daily val (mn)	INR97.9/US\$1.2
52-week range	1,019/532
Sensex/Nifty	64,832/19,395
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-6.7	-4.6	52.0
Relative*	-5.7	-9.1	43.1

* To the BSE Sensex

Financial Summary

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Sales	25,350	36,152	44,185	54,277	60,059
Sales Growth (%)	15.4	42.6	22.2	22.8	10.7
EBITDA	4,181	5,847	7,103	8,580	9,451
EBITDA Margin (%)	16.5	16.2	16.1	15.8	15.7
Adjusted Net Profit	2,110	3,387	4,214	4,884	5,550
Diluted EPS (INR)	32.4	52.0	64.7	74.9	85.2
Diluted EPS Growth (%)	27.0	60.6	24.4	15.9	13.6
ROIC (%)	18.7	23.9	21.7	20.0	18.8
ROE (%)	22.8	28.3	26.8	23.1	20.4
P/E (x)	6.5	10.3	9.5	11.6	10.2
P/B (x)	1.3	2.6	2.2	2.3	1.9
EV/EBITDA (x)	3.3	6.2	6.1	6.7	6.0
Dividend Yield (%)	0.4	0.2	0.2	0.2	0.2

Source: Company data, JM Financial. Note: Valuations as of 09/Nov/2023

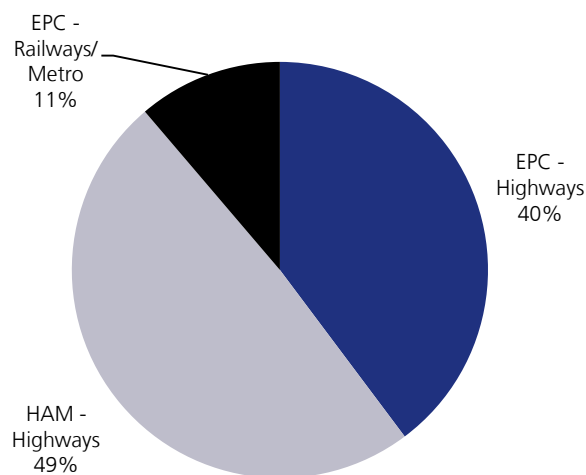
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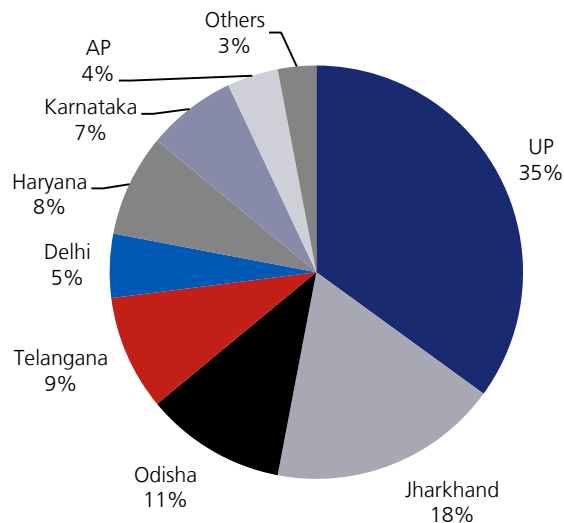
Exhibit 1. Standalone Quarterly results

INR mn	2QFY23	3QFY23	4QFY23	FY23E	1QFY24	2QFY24	2QFY24E	Variance	FY24E	FY25E
Net Sales	7,521	11,312	14,696	44,185	12,713	8,695	9,025	-3.7%	54,277	60,059
EBIDTA	1,208	1,893	2,377	7,103	2,048	1,384	1,404	-1.5%	8,580	9,451
EBIDTA margin (%)	16.1	16.7	16.2	16.1	16.1	15.9	15.6		15.8	15.7
Other income	34	36	77	181	38	17	60	-71.8%	171	306
Depreciation	241	260	261	963	311	354	314	12.7%	1,391	1,542
Interest	138	161	190	633	173	216	175	23.4%	833	797
PBT	862	1,508	2,004	5,687	1,602	831	975	-14.8%	6,527	7,417
Tax	216	394	528	1,474	419	214	245	70.6%	1,643	1,867
Effective tax rate (%)	25.1	26.1	26.3	25.9	26.1	25.8	25.2		25.2	25.2
PAT	646	1,114	1,477	4,214	1,184	617	730	-15.5%	4,884	5,550
Extra-ordinary items	-	-	-	-	-	-	-		-	-
Reported PAT	646	1,114	1,477	4,214	1,184	617	730	-15.5%	4,884	5,550
YoY growth (%)										
Net sales	(0.2)	22.6	43.2	22.2	19.3	15.6			22.8	10.7
EBITDA	(3.7)	24.5	51.6	21.5	26.0	14.6			20.8	10.2
Other income	128.7	70.4	190.8	131.3	14.8	(50.7)			(5.5)	79.3
Interest	10.7	28.9	18.6	19.7	19.9	56.0			31.6	(4.2)
Depreciation	13.4	20.2	19.4	13.3	54.2	46.8			44.4	10.9
PBT	(7.4)	25.6	64.8	25.1	22.1	(3.7)			14.8	13.6
Adjusted PAT	(7.5)	25.4	62.1	24.4	21.2	(4.6)			15.9	13.6
Reported PAT	(7.5)	25.4	62.1	24.4	21.2	(4.6)			15.9	13.6

Source: Company, JM Financial

Exhibit 2. Well diversified order backlog of INR 107bn (Sept-23)

Source: Company, Company, JM Financial

Exhibit 3. UP/Jharkhand account for 35%/18% of Sept'23 backlog

Source: Company, Company, JM Financial

Exhibit 4. Key assumptions

INR mn	FY21	FY22	FY23	FY24E	FY25E
Order inflows	19,333	43,258	84,994	50,000	80,000
EBITDA Margins (%)	16.5	16.2	16.1	15.8	15.7
Net WC days	63	82	65	80	80
Capex	681	574	3,177	1,500	1,200
Investments (net)	1,704	933	3,813	1,005	2,697

Source: Company, JM Financial

Exhibit 5. 100%/94% of our FY24E/25E revenues to be derived from Mar-23 backlog

Revenue Sources (INR mn)	Order value	FY24E	FY25E
On-going projects (Mar-23)	98,460	54,277	41,862
Share of total revenue		100%	70%
Projects awaiting AD + L1 (Sept-23)	27,493	-	14,454
Share of total revenue		0%	24%
FY24E order inflows	50,000	-	3,743
Share of total revenue		0%	6%
Total revenue		54,277	60,059

Source: Company, JM Financial

Exhibit 6. Revenue contribution from Railways/Metro to become material in FY25E

INR mn	Order value	FY24E	FY25E
Highways	113,001	52,210	50,576
Share of total revenue		96%	84%
Railways/Metro	12,952	2,067	5,740
Share of total revenue		4%	10%
Orders yet to be won (FY24E/25E)	130,000		3,743
Share of total revenue		0%	6%
Total revenue		54,277	60,059

Source: Company, JM Financial

Exhibit 7. SoTP based price target of INR 1,150

INR mn	Valuation Methodology	Value driver	Multiple (x)	Valuation	INR/share
EPC business	PEX FY25E	5,550	12.0	66,605	1,022
HAM assets*	P/Bx FY24E	8,363	1.0	8,363	128
Total				74,968	1,150

Source: Company, JM Financial *excludes 4 HAM assets for which SPA has been signed and hence cash inflow has been assumed in FY24

Exhibit 8. HG Infra's portfolio of 12 HAM assets

Project (INR mn)	Awarder	State	Length (km)	AD Status	BPC	Total Debt	Total Equity	Invested equity*	Debt*
Guurgaon-Sohna	NHAI	Haryana	13	Received	6,060	2,879	729	729	2,566
Rewari Ateli Mandi	NHAI	Haryana	30	Received	5,750	2,137	720	720	1,950
Narnual Bypass	NHAI	Haryana	14	Received	9,521	3,433	1,235	1,235	3,218
Rewari Ateli Mandi Pkg-4	NHAI	Haryana	14	Received	5,220	2,200	746	681	1,725
Total of above			71		26,551	10,649	3,430	3,365	9,459
Khamam Devarapalle Pckg-1	NHAI	Telangana	34	Received	7,721	3,100	1,181	597	0
Khamam Devarapalle Pckg-2	NHAI	Telangana	30	Received	6,371	2,560	974	489	250
Raipur-Vishakhapatnam	NHAI	AP	32	Received	10,601	4,520	1,621	928	1,550
Kaliagura to Baunsagar (OD-5)	NHAI	Odisha	44	Received	14,921	6,670	2,282	1,468	2,250
Baunsagar to Baraja (OD-6)	NHAI	Odisha	46	Received	11,231	5,150	1,718	908	2,050
Karnal Munak road	NHAI	Haryana	35	Received	9,971	4,650	1,465	18	0
Deoria to Donoreshan	NHAI	Jharkhand	36	Both pending	13,031	6,200	1,911	2	0
Lepo to Kamlapur	NHAI	Jharkhand	29	Both pending	9,251	4,470	1,337	2	0
Grand total			355		109,649	47,969	15,919	7,777	15,559

Source: Company, JM Financial; *as on Sept-23

These 4 assets are targeted to be monetized by Mar-24

Key conference call takeaways

- **FY24 Guidance lowered:** Revenue: INR 54bn (earlier INR 56bn); EBITDA margins: 15.5-16%; Order inflows: INR 50-60bn (earlier: INR 70-80bn); Capex: INR 1.5bn.
- **Asset monetization:** HG has received approvals from lenders and NHAI for 3 HAMs - likely to close the deal by November end. For 4th HAM, it will start approval process in November end.
- **Gross debt rose sharply** by INR 2bn YoY to INR 6bn in Sept-23 (down INR 600mn QoQ) due to rise in NWC. The company expects debt to reduce to c.INR 4.5bn by Mar-24E.
- **ADs awaited for 2 HAMs:** HG expects to receive appointed dates (AD) for VK Pkg-13 in Jan-24 (earlier guidance: Oct-23) and VK Pkg-10 in Apr-24 (earlier guidance: Nov-23).
- **Bid pipeline robust:** HG has submitted bids for 14 projects (INR 65bn) in Railways and plans to further bid for 15 projects (INR 80bn). It has submitted bids for 2 railway station redevelopment tenders totalling to INR 10bn and will submit for 2 more projects of INR 12bn. HG expects NHAI to award at least 2500-3000km of NHs in FY24E.
- **Equity requirement:** Of the total requirement of INR 16bn for 12 HAMs, HG has invested INR 7.8bn till Sept-23 (invested INR 419mn in 1HFY24). HG will invest INR 3.95bn/INR 2.7bn/INR 1.6bn in H2FY24E/ FY25E/ FY26E.

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Sales	25,350	36,152	44,185	54,277	60,059	
Sales Growth	15.4%	42.6%	22.2%	22.8%	10.7%	
Other Operating Income	0	0	0	0	0	
Total Revenue	25,350	36,152	44,185	54,277	60,059	
Cost of Goods Sold/Op. Exp	19,808	28,682	34,475	41,815	46,516	
Personnel Cost	1,093	1,279	1,959	2,742	3,071	
Other Expenses	267	344	649	1,140	1,021	
EBITDA	4,181	5,847	7,103	8,580	9,451	
EBITDA Margin	16.5%	16.2%	16.1%	15.8%	15.7%	
EBITDA Growth	22.1%	39.8%	21.5%	20.8%	10.2%	
Depn. & Amort.	844	851	963	1,391	1,542	
EBIT	3,337	4,996	6,140	7,189	7,909	
Other Income	80	78	181	171	306	
Finance Cost	596	528	633	833	797	
PBT before Excep. & Forex	2,821	4,546	5,687	6,527	7,417	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,821	4,546	5,687	6,527	7,417	
Taxes	712	1,159	1,474	1,643	1,867	
Extraordinary Inc./Loss(-)	0	0	0	1,880	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,110	3,387	4,214	6,764	5,550	
Adjusted Net Profit	2,110	3,387	4,214	4,884	5,550	
Net Margin	8.3%	9.4%	9.5%	9.0%	9.2%	
Diluted Share Cap. (mn)	65.2	65.2	65.2	65.2	65.2	
Diluted EPS (INR)	32.4	52.0	64.7	74.9	85.2	
Diluted EPS Growth	27.0%	60.6%	24.4%	15.9%	13.6%	
Total Dividend + Tax	52	65	81	91	98	
Dividend Per Share (INR)	0.8	1.0	1.3	1.4	1.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Profit before Tax	2,821	4,546	5,687	6,527	7,417	
Depn. & Amort.	844	851	963	1,391	1,542	
Net Interest Exp. / Inc. (-)	516	450	452	662	491	
Inc (-) / Dec in WCcap.	1,735	-3,882	255	-3,806	-1,139	
Others	0	0	0	0	0	
Taxes Paid	-719	-1,172	-1,567	-1,643	-1,867	
Operating Cash Flow	5,198	793	5,791	3,131	6,445	
Capex	-758	-613	-3,177	-1,501	-1,500	
Free Cash Flow	4,440	180	2,614	1,630	4,945	
Inc (-) / Dec in Investments	-1,704	-933	-3,902	964	-3,203	
Others	0	0	0	0	0	
Investing Cash Flow	-2,461	-1,546	-7,079	-537	-4,703	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	0	-65	-81	-91	-98	
Inc / Dec (-) in Loans	-785	257	1,890	-537	-1,000	
Others	-511	-437	-312	-662	-491	
Financing Cash Flow	-1,296	-245	1,497	-1,290	-1,589	
Inc / Dec (-) in Cash	1,440	-999	208	1,304	152	
Opening Cash Balance	1,144	2,584	1,585	1,794	3,098	
Closing Cash Balance	2,584	1,585	1,794	3,098	3,250	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Shareholders' Fund	10,322	13,643	17,784	24,457	29,910	
Share Capital	652	652	652	652	652	
Reserves & Surplus	9,670	12,992	17,133	23,806	29,258	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	2,890	3,147	5,037	4,500	3,500	
Def. Tax Liab. / Assets (-)	0	0	280	280	280	
Total - Equity & Liab.	13,212	16,790	23,101	29,237	33,690	
Net Fixed Assets	4,849	4,611	7,066	7,176	7,134	
Gross Fixed Assets	7,656	8,231	10,512	12,012	13,512	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	2,826	3,642	4,166	5,556	7,098	
Capital WIP	18	22	719	719	719	
Investments	2,612	3,545	7,447	8,363	11,567	
Current Assets	14,201	15,558	20,580	24,516	27,004	
Inventories	1,680	1,836	2,353	2,979	3,186	
Sundry Debtors	6,575	6,995	8,791	10,409	10,695	
Cash & Bank Balances	2,584	1,585	1,794	3,098	3,250	
Loans & Advances	0	0	0	0	0	
Other Current Assets	3,361	5,143	7,642	8,030	9,873	
Current Liab. & Prov.	8,449	6,924	11,992	10,818	12,015	
Current Liabilities	4,984	4,355	7,437	6,301	7,009	
Provisions & Others	3,465	2,569	4,556	4,517	5,005	
Net Current Assets	5,751	8,634	8,588	13,698	14,989	
Total - Assets	13,212	16,790	23,101	29,237	33,690	

Source: Company, JM Financial

Dupont Analysis		FY21A	FY22A	FY23A	FY24E	FY25E
Y/E March						
Net Margin	8.3%	9.4%	9.5%	9.0%	9.2%	
Asset Turnover (x)	2.0	2.4	2.2	2.1	1.9	
Leverage Factor (x)	1.4	1.3	1.3	1.2	1.2	
RoE	22.8%	28.3%	26.8%	23.1%	20.4%	

Key Ratios		FY21A	FY22A	FY23A	FY24E	FY25E
Y/E March						
BV/Share (INR)	158.4	209.3	272.9	375.3	458.9	
ROIC	18.7%	23.9%	21.7%	20.0%	18.8%	
ROE	22.8%	28.3%	26.8%	23.1%	20.4%	
Net Debt/Equity (x)	0.0	0.1	0.2	0.1	0.0	
P/E (x)	6.5	10.3	9.5	11.6	10.2	
P/B (x)	1.3	2.6	2.2	2.3	1.9	
EV/EBITDA (x)	3.3	6.2	6.1	6.7	6.0	
EV/Sales (x)	0.6	1.0	1.0	1.1	0.9	
Debtor days	95	71	73	70	65	
Inventory days	24	19	19	20	19	
Creditor days	86	52	73	50	51	

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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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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