

HG Infra Engineering | BUY



Bid pipeline robust; expect uptick in order intake

HG Infra's (HG) 3QFY24 adjusted PAT at INR 1.15bn missed JMFe of INR 1.19bn (consensus: INR 1.18bn) due to higher depreciation/interest costs. Reported PAT of INR 2.06bn includes gain of INR 907mn (post-tax) on sale of 3 HAM assets to KKR. HG received INR 3.1bn for 3 HAMs while remainder INR 640mn is to be received by Mar-24. Monetization of 4th HAM is in process for which HG will receive INR 1.4bn by Mar-24. Order backlog moderated QoQ to INR 96bn (1.9x TTM revenue) as on Dec-23. Due to delay in receipt of ADs for 2 HAMs and prolonged monsoon, HG further lowered its revenue guidance from INR 54bn to INR 52-53bn in FY24. While YTD inflows are weak at INR 10bn, HG FY24 inflow guidance of INR 60bn led by strong bid pipeline. Receipt of entire monetization proceeds by Mar-24 will strengthen balance sheet and provide growth capital. We expect 13%/11% revenue/EPS CAGR over FY23-26E. Valuation at 10.9x FY26E EPS remains inexpensive. The coverage stands transferred to Vaibhav Shah. Maintain BUY with a revised price target of INR 1190.

- 3QFY24 earnings missed estimate due to higher depreciation and interest costs:** Revenue/EBITDA grew by 19%/13% YoY to INR 13.5bn/INR 2.14bn (in-line). EBITDA margins expanded by 20bps on adjusted base of PY to 15.9% (JMFe: 15.7%). Interest costs grew by 41% YoY to INR 226mn (JMFe: INR 220mn) due to rise in interest rates. Depreciation grew by 41% YoY to INR 367mn (JMFe: INR 360mn).
- Order backlog moderates amid weak inflows; bid pipeline robust:** HG's order backlog moderated to INR 96bn (1.9x TTM revenue) as on Dec-23. HG has received inflows of INR 10bn in YTD but has maintained FY24 inflow guidance of INR 60bn backed by strong bid pipeline. HG has submitted bids of INR 140bn where bids are yet to open. It also has a robust bid pipeline from NHAI/MoRTH (INR 900bn), MSRDC (INR 480bn) and Railways (INR 250bn). Of these, HG targets to bid for projects of c.INR 600bn. Due to delay in receipt of ADs for 2 HAMs and prolonged monsoon, HG has lowered revenue guidance from INR 54bn to INR 52-53bn for FY24 while keeping FY25 guidance of INR 60bn intact.
- Proceeds from monetization to strengthen balance sheet and provide growth capital:** HG received INR 3.1bn from monetization of 3 HAMs while remainder INR 640mn is to be received by Mar-24. Monetization of 4th HAM is in process for which HG will receive INR 1.4bn by Mar-24. Gross debt reduced QoQ from INR 6bn in Sept-23 to INR 4.7bn in Dec-23. For its portfolio of 8 HAM assets, equity requirement stands at INR 12.5bn of which INR 5.3bn is invested till Dec-23. Balance equity of INR 7.3bn is to be invested by FY26E.
- Order backlog to strengthen led by expected order wins; Maintain BUY:** We like HG for its robust execution track record, strong growth and lean balance sheet. Monetization proceeds from 4 HAM assets will further strengthen the balance sheet (Net debt including mobilization advances/EBITDA of 0.4x in FY26E). Given the delay in receipt of ADs for 2 HAMs, we have cut FY24/25E EPS estimates by 4.9%/3%. We expect 13%/11% revenue/ EPS CAGR over FY23-26. The stock trades at an attractive valuation of 10.9x FY26E EPS. We value HG's EPC business at 12x FY26 EPS and HAM assets at INR 132/share (1x P/B) to arrive at SOTP-based revised price target of INR 1,190. Maintain BUY.

Vaibhav Shah

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,190
Upside/(Downside)	24.0%
Previous Price Target	1,150
Change	3.5%

Key Data – HGINFRA IN

Current Market Price	INR960
Market cap (bn)	INR62.5/US\$0.8
Free Float	25%
Shares in issue (mn)	65.2
Diluted share (mn)	65.2
3-mon avg daily val (mn)	INR134.5/US\$1.6
52-week range	1,019/634
Sensex/Nifty	71,731/21,772
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	12.6	3.0	42.1
Relative*	13.1	-5.7	20.5

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	36,152	44,185	52,082	58,352	64,193
Sales Growth (%)	42.6	22.2	17.9	12.0	10.0
EBITDA	5,847	7,103	8,310	9,186	9,823
EBITDA Margin (%)	16.2	16.1	16.0	15.7	15.3
Adjusted Net Profit	3,387	4,214	4,644	5,385	5,759
Diluted EPS (INR)	52.0	64.7	71.3	82.6	88.4
Diluted EPS Growth (%)	60.6	24.4	10.2	16.0	6.9
ROIC (%)	23.9	21.7	19.7	19.3	17.3
ROE (%)	28.3	26.8	22.3	20.4	18.1
P/E (x)	10.3	9.5	13.5	11.6	10.9
P/B (x)	2.6	2.2	2.6	2.2	1.8
EV/EBITDA (x)	6.2	6.1	7.6	6.7	6.4
Dividend Yield (%)	0.2	0.2	0.1	0.2	0.2

Source: Company data, JM Financial. Note: Valuations as of 05/Feb/2024

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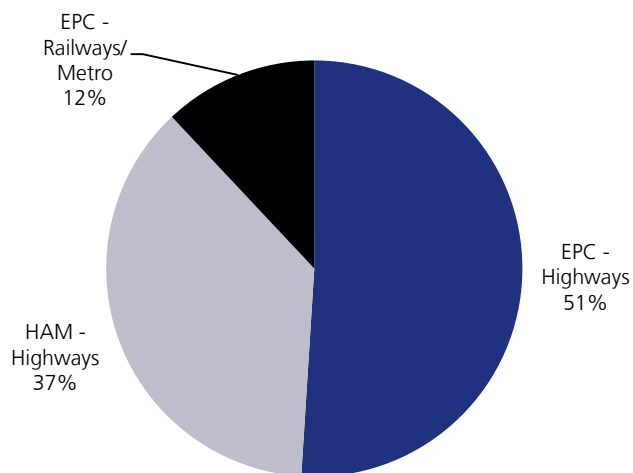
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Standalone Quarterly results

INR mn	3QFY23	4QFY23	FY23E	1QFY24	2QFY24	3QFY24	3QFY24E	Variance	FY24E	FY25E	FY26E
Net Sales	11,312	14,696	44,185	12,713	8,695	13,464	13,500	-0.3%	52,082	58,352	64,193
EBIDTA	1,893	2,377	7,103	2,048	1,384	2,142	2,120	1.1%	8,310	9,186	9,823
EBIDTA margin (%)	16.7	16.2	16.1	16.1	15.9	15.9	15.7		16.0	15.7	15.3
Other income	36	77	181	38	17	25	50	-49.1%	171	312	337
Depreciation	260	261	963	311	354	367	360	2.0%	1,403	1,561	1,678
Interest	161	190	633	173	216	226	220	2.9%	804	740	785
PBT	1,508	2,004	5,687	1,602	831	1,574	1,590	-1.0%	6,274	7,197	7,696
Tax	394	528	1,474	419	214	426	400	6.4%	1,629	1,811	1,937
Effective tax rate (%)	26.1	26.3	25.9	26.1	25.8	27.0	25.2		26.0	25.2	25.2
PAT	1,114	1,477	4,214	1,184	617	1,148	1,189	-3.5%	4,644	5,385	5,759
Extra-ordinary items	-	-	-	-	-	907	-		1,456	-	-
Reported PAT	1,114	1,477	4,214	1,184	617	2,055	1,189	72.8%	6,100	5,385	5,759
YoY growth (%)											
Net sales	22.6	43.2	22.2	19.3	15.6	19.0			17.9	12.0	10.0
EBITDA	24.5	51.6	21.5	26.0	14.6	13.2			17.0	10.5	6.9
Other income	70.4	190.8	131.3	14.8	(50.7)	(29.2)			(5.5)	83.0	7.9
Interest	28.9	18.6	19.7	19.9	56.0	40.8			27.0	(7.9)	6.1
Depreciation	20.2	19.4	13.3	54.2	46.8	41.2			45.6	11.3	7.5
PBT	25.6	64.8	25.1	22.1	(3.7)	4.4			10.3	14.7	6.9
Adjusted PAT	25.4	62.1	24.4	21.2	(4.6)	3.1			10.2	16.0	6.9
Reported PAT	25.4	62.1	24.4	21.2	(4.6)	84.4			44.8	(11.7)	6.9

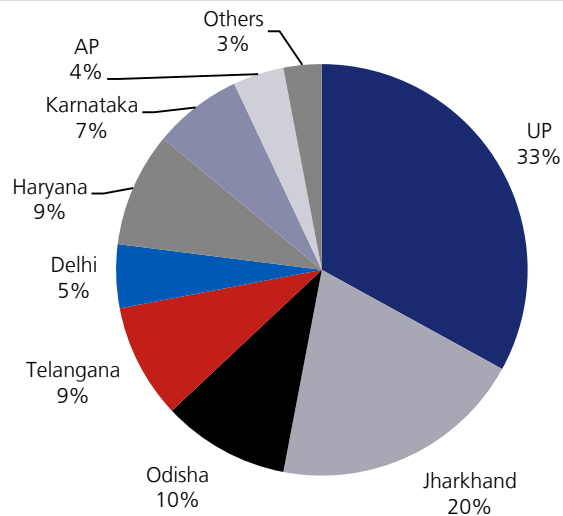
Source: Company, JM Financial

Exhibit 2. Well diversified order backlog of INR 96bn (Dec-23)



Source: Company, JM Financial

Exhibit 3. UP/Jharkhand account for 33%/20% of Dec-23 backlog



Source: Company, JM Financial

Exhibit 4. Key assumptions

INR mn	FY22	FY23	FY24E	FY25E	FY26E
Order inflows	43,258	84,994	50,000	80,000	100,000
EBITDA Margins (%)	16.2	16.1	16.0	15.7	15.3
Net WC days	82	65	90	80	80
Capex	574	3,177	1,500	1,500	1,750
Investments (net)	933	3,813	1,904	4,650	1,920

Source: Company, JM Financial

Exhibit 5. Revenue contribution from Railways/Metro to become material in FY25/26E

Segmental revenue mix	Order value	FY24E	FY25E	FY26E
Highways	113,001	49,949	50,847	25,566
Share of total revenue		96%	87%	40%
Railways/Metro	22,852	2,133	7,505	8,232
Share of total revenue		4%	13%	13%
Orders yet to be won (4QFY24E/FY25E)	120,142		-	30,395
Share of total revenue		0%	0%	47%
Total		52,082	58,352	64,193

Source: Company, JM Financial

Exhibit 6. SoTP based price target of INR 1,190

INR mn	Valuation Methodology	Value driver	Multiple (x)	Valuation	INR/share
EPC business	PEx FY26E	5,759	12.0	68,996	1,059
HAM assets*	P/Bx Sept-24E	8,573	1.0	8,573	132
Total				77,569	1,190

Source: Company, JM Financial *excludes 4 HAM assets for which monetization is completed (cashflows partly received and remainder expected in 4QFY24)

Exhibit 7. HG Infra's portfolio of 8 HAM assets^

Project (INR mn)	Awarding authority	State	Length (km)	AD Status	BPC	Total Debt	Total Equity	Invested equity*	Debt*
Khamam Devarapalle Pckg-1	NHAI	Telangana	34	Received	7,721	3,100	1,181	602	800
Khamam Devarapalle Pckg-2	NHAI	Telangana	30	Received	6,371	2,560	974	504	750
Raipur-Vishakhapatnam	NHAI	AP	32	Received	10,601	4,520	1,621	968	1,750
Kaliagura to Baunsagar (OD-5)	NHAI	Odisha	44	Received	14,921	6,670	2,282	1,538	2,250
Baunsagar to Baraja (OD-6)	NHAI	Odisha	46	Received	11,231	5,150	1,718	968	2,200
Karnal Munak	NHAI	Haryana	35	Received	9,971	4,650	1,465	670	-
Deoria to Donoreshan	NHAI	Jharkhand	36	Pending	13,031	6,200	1,911	2	-
Lepo to Kamlapur	NHAI	Jharkhand	29	Pending	9,251	4,470	1,337	2	-
Total			286		83,098	37,320	12,489	5,254	7,750

Source: Company, JM Financial; *as on Dec-23; ^: ex of 4 assets under monetization

Key conference call takeaways

- **FY24 guidance:** Revenue: 17-20% growth (implies revenue of c.INR 52-53bn; earlier guidance: INR 54bn); EBITDA margins: 15.5-16%; Order inflows: INR 60bn (INR 50bn incremental); Capex: c.INR 1bn.
- HG has maintained its revenue guidance of INR 60bn and guided for order inflows of INR 80-100bn for FY25E.
- **Robust Pipeline:** HG has already submitted bids for INR 140bn projects (Railways: INR 100bn; Highways: INR 40bn) where bids are yet to open. Robust highway pipeline of INR 900bn (NHAI + MoRTH), MSRDC (INR 480bn) and Railways pipeline of INR 250bn. HG will bid for INR 600bn projects. Targets to receive INR 50bn incremental inflows (Railways: INR 10bn and remainder from Highways) in 4QFY24.
- **Diversification:** HG will target to diversify in Water Supply projects (JJM) - INR 5-10bn in FY25E. It is also looking for couple of small solar projects (as a developer) of INR 1-2bn.
- **ADs delayed for 2 HAMs:** HG expects to receive AD for Varanasi Kolkata Pkg-13 in June-24 (earlier: Jan-24) and Varanasi Kolkata Pkg-10 in Sept-24 (earlier: Apr-24).
- **Equity requirement:** Of the total requirement of INR 12.5bn for 8 HAMs, HG has invested INR 5.3bn till Dec-23. HG will be investing remainder equity of INR 7.3bn over FY24-26E.

Financial Tables (Standalone)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	36,152	44,185	52,082	58,352	64,193
Sales Growth	42.6%	22.2%	17.9%	12.0%	10.0%
Other Operating Income	0	0	0	0	0
Total Revenue	36,152	44,185	52,082	58,352	64,193
Cost of Goods Sold/Op. Exp	28,682	34,475	39,864	44,762	49,460
Personnel Cost	1,279	1,959	2,815	3,237	3,625
Other Expenses	344	649	1,094	1,167	1,284
EBITDA	5,847	7,103	8,310	9,186	9,823
EBITDA Margin	16.2%	16.1%	16.0%	15.7%	15.3%
EBITDA Growth	39.8%	21.5%	17.0%	10.5%	6.9%
Depn. & Amort.	851	963	1,403	1,561	1,678
EBIT	4,996	6,140	6,907	7,625	8,145
Other Income	78	181	171	312	337
Finance Cost	528	633	804	740	785
PBT before Excep. & Forex	4,546	5,687	6,274	7,197	7,696
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	4,546	5,687	6,274	7,197	7,696
Taxes	1,159	1,474	1,629	1,811	1,937
Extraordinary Inc./Loss(-)	0	0	1,456	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	3,387	4,214	6,100	5,385	5,759
Adjusted Net Profit	3,387	4,214	4,644	5,385	5,759
Net Margin	9.4%	9.5%	8.9%	9.2%	9.0%
Diluted Share Cap. (mn)	65.2	65.2	65.2	65.2	65.2
Diluted EPS (INR)	52.0	64.7	71.3	82.6	88.4
Diluted EPS Growth	60.6%	24.4%	10.2%	16.0%	6.9%
Total Dividend + Tax	65	81	91	98	115
Dividend Per Share (INR)	1.0	1.3	1.4	1.5	1.8

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	4,546	5,687	6,274	7,197	7,696
Depn. & Amort.	851	963	1,403	1,561	1,678
Net Interest Exp. / Inc. (-)	450	452	633	428	448
Inc (-) / Dec in WCap.	-3,882	255	-4,717	216	-1,241
Others	0	0	0	0	0
Taxes Paid	-1,172	-1,567	-1,629	-1,811	-1,937
Operating Cash Flow	793	5,791	1,964	7,591	6,644
Capex	-613	-3,177	-1,201	-1,000	-1,500
Free Cash Flow	180	2,614	764	6,591	5,144
Inc (-) / Dec in Investments	-933	-3,902	2,909	-5,157	-5,065
Others	0	0	0	0	0
Investing Cash Flow	-1,546	-7,079	1,708	-6,157	-6,565
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-65	-81	-91	-98	-115
Inc / Dec (-) in Loans	257	1,890	-1,037	-1,000	500
Others	-437	-312	-633	-428	-448
Financing Cash Flow	-245	1,497	-1,761	-1,526	-63
Inc / Dec (-) in Cash	-999	208	1,911	-91	16
Opening Cash Balance	2,584	1,585	1,794	3,705	3,614
Closing Cash Balance	1,585	1,794	3,705	3,614	3,629

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	13,643	17,784	23,793	29,081	34,725
Share Capital	652	652	652	652	652
Reserves & Surplus	12,992	17,133	23,142	28,429	34,074
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	3,147	5,037	4,000	3,000	3,500
Def. Tax Liab. / Assets (-)	0	280	280	280	280
Total - Equity & Liab.	16,790	23,101	28,073	32,361	38,505
Net Fixed Assets	4,611	7,066	6,863	6,302	6,124
Gross Fixed Assets	8,231	10,512	11,712	12,712	14,212
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	3,642	4,166	5,568	7,129	8,807
Capital WIP	22	719	719	719	719
Investments	3,545	7,447	5,994	11,151	16,216
Current Assets	15,558	20,580	25,549	26,503	28,825
Inventories	1,836	2,353	4,150	3,066	3,388
Sundry Debtors	6,995	8,791	9,988	10,232	11,256
Cash & Bank Balances	1,585	1,794	3,705	3,613	3,629
Loans & Advances	0	0	0	0	0
Other Current Assets	5,143	7,642	7,705	9,592	10,552
Current Liab. & Prov.	6,924	11,992	10,333	11,595	12,660
Current Liabilities	4,355	7,437	6,007	6,745	7,453
Provisions & Others	2,569	4,556	4,326	4,850	5,207
Net Current Assets	8,634	8,588	15,215	14,908	16,165
Total - Assets	16,790	23,101	28,073	32,361	38,505

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	9.4%	9.5%	8.9%	9.2%	9.0%
Asset Turnover (x)	2.4	2.2	2.0	1.9	1.8
Leverage Factor (x)	1.3	1.3	1.2	1.1	1.1
RoE	28.3%	26.8%	22.3%	20.4%	18.1%

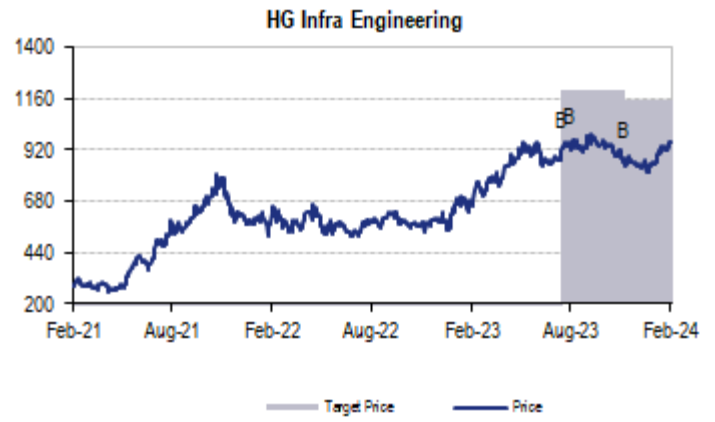
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	209.3	272.9	365.1	446.2	532.8
ROIC	23.9%	21.7%	19.7%	19.3%	17.3%
ROE	28.3%	26.8%	22.3%	20.4%	18.1%
Net Debt/Equity (x)	0.1	0.2	0.0	0.0	0.0
P/E (x)	10.3	9.5	13.5	11.6	10.9
P/B (x)	2.6	2.2	2.6	2.2	1.8
EV/EBITDA (x)	6.2	6.1	7.6	6.7	6.4
EV/Sales (x)	1.0	1.0	1.2	1.1	1.0
Debtor days	71	73	70	64	64
Inventory days	19	19	29	19	19
Creditor days	52	73	50	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

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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