

HG Infra Engineering | BUY



Robust order backlog to drive earnings growth

HG reported strong earnings in 1Q25. PAT at INR 1.4bn beats JMFe of INR 1.35bn (consensus: INR 1.25bn) led by lower depreciation expenses. HAM monetization is under progress, with INR 3.1bn received for 3 projects while remaining INR 610mn to be received by Sept-24. Monetization of 4th HAM is underway for which HG is set to receive INR 1.3bn by Oct-24. Also, HG also targets to monetize 5 under construction HAMs in FY26E (equity: INR 7.7bn at fully invested stage). Order backlog stands strong at INR 156bn (2.9x TTM revenues) as on June-24. HG is confident of achieving its order inflow guidance of INR 110-120bn in FY25 given its strong YTD inflows of INR 52bn and robust bid pipeline across verticals. HG has guided for revenue growth of 18-20% with EBITDA margins of 15-16% for FY25E. We have upgraded our FY25/26 earnings by 8%/13% led by increase in revenue backed by strong order intake in YTD. We expect 19% revenue/EPS CAGR over FY24-27E. Maintain BUY with a revised price target of INR 1900 (valuing EPC business at 15x Sept-26 EPS).

- Earnings beat led by lower depreciation expenses:** Revenue/EBITDA grew by 18%/19% YoY to INR 15bn/INR 2.4bn (JMFe: INR 14.8bn/INR 2.36bn). EBITDA margin expanded by 10bps YoY to 16.2% (JMFe: 16%). Interest costs grew sharply by 28% YoY to INR 220mn (JMFe: INR 210mn). Depreciation grew by 12% YoY to INR 348mn (JMFe: INR 385mn). Gross debt increased sharply from INR 4.5bn in Mar-24 to INR 6.2bn in June-24. PAT grew by 18% YoY to INR 1.4bn (JMFe: INR 1.35bn).
- Order backlog improves materially led by strong order wins:** HG secured inflows of INR 46bn in 1Q25 (YTD: INR 52bn) taking order backlog to INR 156bn (2.9x TTM revenues). Of this, INR 76bn is currently under execution and entire backlog would be under execution by 4Q25. Backlog is well diversified with Railways/Solar accounting for 16%/11% share. HG is confident of achieving its order inflow guidance of INR 110-120bn in FY25 given the strong YTD order intake and robust bid pipeline across verticals. HG has guided for revenue growth of 18-20% with EBITDA margins of 15-16% in FY25E.
- Equity commitment significant in FY25/26 for HAM and Solar portfolio; leverage to remain at comfortable levels:** HG has won multiple projects for EPC and commissioning of Solar power plants under the KUSUM scheme. EPC value of those orders is c.INR 17bn. HG will be infusing equity of INR 6.9bn over FY25-26E. For its portfolio of 10 HAM projects, total equity requirement is INR 14.6bn of which INR 7.3bn is invested till Jun-24. Pending equity is to be invested over FY25-27E. While debt is expected to inch up to INR 8.5bn in FY27E given the substantial equity investments in HAM and solar projects, Net debt including mobilization advances/ EBITDA would still be comfortable at 0.8x in FY27E.
- 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 19% revenue/EPS CAGR over FY24-27E. HG trades at an attractive valuation of 13x/11x FY26/27E EPS (adjusted for value of assets). We value HG's EPC business at 15x Sept-26 EPS and HAM/Solar assets at INR 281/share (0.7-1x P/B) to arrive at SOTP-based revised price target of INR 1,900. Maintain BUY.

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We acknowledge the support of **Parth Thakkar** in the preparation of this report

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,900
Upside/(Downside)	22.3%
Previous Price Target	1,380
Change	37.7%

Key Data – HGINFRA IN

Current Market Price	INR1,553
Market cap (bn)	INR101.2/US\$1.2
Free Float	25%
Shares in issue (mn)	65.2
Diluted share (mn)	65.2
3-mon avg daily val (mn)	INR649.0/US\$7.7
52-week range	1,880/805
Sensex/Nifty	79,468/24,298
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	-10.2	67.2	69.4
Relative*	-9.6	50.3	40.4

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	44,185	51,217	61,479	72,547	85,610
Sales Growth (%)	22.2	15.9	20.0	18.0	18.0
EBITDA	7,103	8,220	9,836	11,243	13,131
EBITDA Margin (%)	16.1	16.0	16.0	15.5	15.3
Adjusted Net Profit	4,214	4,548	5,654	6,426	7,643
Diluted EPS (INR)	64.7	69.8	86.8	98.6	117.3
Diluted EPS Growth (%)	24.4	7.9	24.3	13.7	18.9
ROIC (%)	21.7	19.0	18.8	17.2	17.0
ROE (%)	26.8	22.2	21.6	19.9	19.5
P/E (x)	9.5	12.9	17.9	15.7	13.2
P/B (x)	2.2	2.5	3.5	2.8	2.4
EV/EBITDA (x)	6.1	7.5	10.7	9.5	8.1
Dividend Yield (%)	0.2	0.2	0.1	0.1	0.2

Source: Company data, JM Financial. Note: Valuations as of 07/Aug/2024

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Bloomberg - JMFR <GO>,
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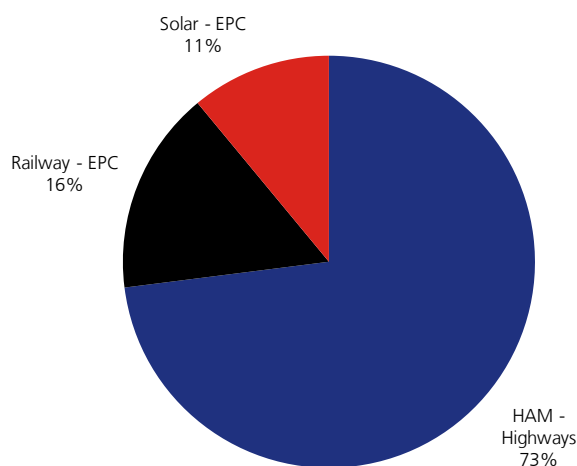
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Standalone quarterly results

INR mn	1QFY24	2QFY24	3QFY24	4QFY24	FY24	1QFY25	1QFY25E	Variance	FY25E	FY26E	FY27E
Net Sales	12,713	8,695	13,464	16,345	51,217	15,059	14,750	2.1%	61,479	72,547	85,610
EBIDTA	2,048	1,384	2,142	2,646	8,220	2,433	2,358	3.2%	9,836	11,243	13,131
EBIDTA margin (%)	16.1	15.9	15.9	16.2	16.0	16.2	16.0		16.0	15.5	15.3
Other income	38	17	25	46	126	32	40	-20.9%	180	204	236
Depreciation	311	354	367	380	1,412	348	385	-9.7%	1,520	1,688	1,845
Interest	173	216	226	195	810	220	210	4.9%	907	1,171	1,308
PBT	1,602	831	1,574	2,117	6,124	1,897	1,803	5.2%	7,588	8,588	10,214
Tax	419	214	426	518	1,576	501	454	10.4%	1,934	2,162	2,571
Effective tax rate (%)	26.1	25.8	27.0	24.5	25.7	26.4	25.2		25.5	25.2	25.2
PAT	1,184	617	1,148	1,600	4,548	1,395	1,349	3.4%	5,654	6,426	7,643
Extra-ordinary items	-	-	907	-	907	-	-		479	-	-
Reported PAT	1,184	617	2,055	1,600	5,455	1,395	1,349	3.4%	6,134	6,426	7,643
YoY growth (%)											
Net sales	19.3	15.6	19.0	11.2	15.9	18.4			20.0	18.0	18.0
EBITDA	26.0	14.6	13.2	11.3	15.7	18.8			19.7	14.3	16.8
Other income	14.8	(50.7)	(29.2)	(40.8)	(30.2)	(16.4)			42.6	13.7	15.5
Interest	19.9	56.0	40.8	2.6	28.0	27.6			12.0	29.1	11.7
Depreciation	54.2	46.8	41.2	45.6	46.5	12.0			7.7	11.0	9.3
PBT	22.1	(3.7)	4.4	5.6	7.7	18.4			23.9	13.2	18.9
Adjusted PAT	21.2	(4.6)	3.1	8.3	7.9	17.9			24.3	13.7	18.9
Reported PAT	21.2	(4.6)	84.4	8.3	29.5	17.9			12.4	4.8	18.9

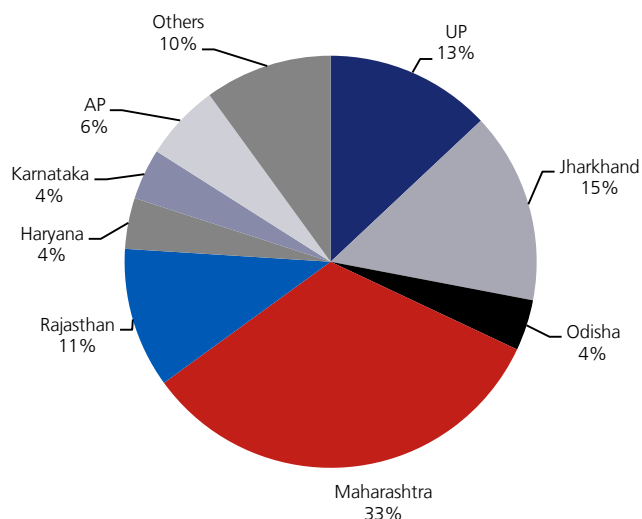
Source: Company, JM Financial

Exhibit 2. Well diversified order backlog of INR 156bn (June-24)



Source: Company, JM Financial

Exhibit 3. Maharashtra accounts for 33% of June-24 backlog



Source: Company, JM Financial

Exhibit 4. Key assumptions

INR mn	FY23	FY24	FY25E	FY26E	FY27E
Order inflows	84,994	43,064	100,000	120,000	120,000
EBITDA Margins (%)	16.1	16.0	16.0	15.5	15.3
Net WC days	65	84	80	80	80
Capex	2,281	2,010	750	1,200	1,500
Investments (net)*	3,813	1,507	8,112	5,510	1,891

Source: Company, JM Financial; *: includes incremental equity investments in HAM and Solar projects

Exhibit 5. Portfolio of HAM projects (as on June-24)

INR mn	Awarding Authority	State	Kms	BPC	Grant	Total Sanctioned Debt	Invested Equity till 30 Jun'24	Debt as on 30th Jun'24
Rewari Bypass Pkg-4	NHAI	Haryana	14	5,220	2,088	2,015	757	1,879
Khammam Devarapalle Pkg-1	NHAI	Telangana	34	7,721	3,088	3,100	921	1,300
Khammam Devarapalle Pkg-2	NHAI	Telangana	30	6,371	2,548	2,560	762	1,000
Raipur Visakhapatnam AP-1	NHAI	Andhra Pradesh	32	10,601	4,240	4,520	1,061	2,700
Raipur Visakhapatnam OD-5	NHAI	Odisha	44	14,921	5,968	6,670	1,700	3,850
Raipur Visakhapatnam OD-6	NHAI	Odisha	46	11,231	4,492	5,150	1,116	3,250
Karnal Ringroad	NHAI	Haryana	35	9,971	3,988	4,650	891	1,150
Varanasi Kolkata Pkg-10	NHAI	Jharkhand	36	13,031	5,212	6,200	42	-
Varanasi Kolkata Pkg-13	NHAI	Jharkhand	29	9,251	3,700	4,470	29	-
Chennai Tirupati II	NHAI	Andhra Pradesh	37	8,621	3,448	4,350	2	-
TOTAL					38,772	43,685	7,281	15,129

Source: Company, JM Financial

Exhibit 6. Revenue contribution from non-Highways to increase in FY26/27E

Segmental revenue mix	Order value	FY25E	FY26E	FY27E
Highways	84,850	50,612	45,854	34,798
Share of total revenue		82%	63%	41%
Railways/Metro	26,507	8,640	10,751	7,136
Share of total revenue		14%	15%	8%
Solar	12,983	2,227	10,089	2,962
Share of total revenue		4%	14%	3%
Orders yet to be won (FY25/26E)	167,625	-	5,853	40,715
Share of total revenue		0%	8%	48%
Total		61,479	72,547	85,610

Source: Company, JM Financial

Exhibit 7. SoTP based price target of INR 1,900

INR mn	Valuation Methodology	Value driver	Multiple (x)	Valuation	INR/share
EPC business	PEx Sept-26 PAT	7,035	15.0	105,523	1,619
HAM assets*	P/Bx Mar-26E	13,450	1.0	13,450	206
Solar assets	P/Bx Mar-26E	6,920	0.7	4,844	74
Total				123,817	1,900

Source: Company, JM Financial; *excludes 4 HAM assets for which monetization is completed (cashflows partly received and remainder expected by Oct-24).

Key conference call takeaways

- **FY25 Guidance:** Revenue: 18-20% growth to c.INR 60-61bn (FY24: INR 51bn); EBITDA margins: 15-16% (FY24: 16%); Order inflows: INR 110-120bn (YTD: INR 52bn); Capex: c.INR 750mn.
- **Asset monetization:** The company has received INR 3.1bn for 3 SPVs in FY24 and remaining INR 610mn to be received by Sept-24. Additionally, proceeds of INR 1.3bn from 4th HAM to be received by Oct-24.
- **Solar projects:** EPC value: INR 17bn; Execution timeline: 18 months; Equity requirement: INR 6.9bn (FY25/26: INR 3.6bn/INR 3.3bn); revenue of INR 5bn/INR 12bn in FY25/26E; EBITDA margin: c.17-18% (including partial pass through of grant from SPVs).
- **Appointed date:** The company expects to receive AD for VRK Pkg-13 in Sept-24, VRK Pkg-10 in Jan-25 (earlier: Nov-24) and Chennai-Tirupathi in Sept-24. AD for 2 railway projects is also to be received in Sept-24.
- **HAM equity requirement:** Total equity requirement for 10 HAMs stands at INR 14.6bn, out of which the company has already invested INR 7.3bn till June-24. The company plans to invest INR 4.6bn/INR 1.8bn/INR 1.3bn in FY25E/26E/27E.

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	44,185	51,217	61,479	72,547	85,610	
Sales Growth	22.2%	15.9%	20.0%	18.0%	18.0%	
Other Operating Income	0	0	0	0	0	
Total Revenue	44,185	51,217	61,479	72,547	85,610	
Cost of Goods Sold/Op. Exp	34,475	39,189	47,056	55,992	66,442	
Personnel Cost	1,959	2,882	3,358	3,862	4,325	
Other Expenses	649	927	1,230	1,451	1,712	
EBITDA	7,103	8,220	9,836	11,243	13,131	
EBITDA Margin	16.1%	16.0%	16.0%	15.5%	15.3%	
EBITDA Growth	21.5%	15.7%	19.7%	14.3%	16.8%	
Deprn. & Amort.	963	1,412	1,520	1,688	1,845	
EBIT	6,140	6,808	8,315	9,555	11,286	
Other Income	181	126	180	204	236	
Finance Cost	633	810	907	1,171	1,308	
PBT before Excep. & Forex	5,687	6,124	7,588	8,588	10,214	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	5,687	6,124	7,588	8,588	10,214	
Taxes	1,474	1,576	1,934	2,162	2,571	
Extraordinary Inc./Loss(-)	0	907	479	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	4,214	5,455	6,134	6,426	7,643	
Adjusted Net Profit	4,214	4,548	5,654	6,426	7,643	
Net Margin	9.5%	8.9%	9.2%	8.9%	8.9%	
Diluted Share Cap. (mn)	65.2	65.2	65.2	65.2	65.2	
Diluted EPS (INR)	64.7	69.8	86.8	98.6	117.3	
Diluted EPS Growth	24.4%	7.9%	24.3%	13.7%	18.9%	
Total Dividend + Tax	81	98	98	129	153	
Dividend Per Share (INR)	1.3	1.5	1.5	2.0	2.3	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	5,687	7,031	8,068	8,588	10,214	
Deprn. & Amort.	963	1,412	1,520	1,688	1,845	
Net Interest Exp. / Inc. (-)	452	684	727	967	1,072	
Inc (-) / Dec in WCcap.	255	-3,938	-1,516	-2,108	-2,597	
Others	0	0	0	0	0	
Taxes Paid	-1,567	-1,751	-1,934	-2,162	-2,571	
Operating Cash Flow	5,791	3,438	6,865	6,974	7,963	
Capex	-3,177	-1,810	-749	-1,250	-1,500	
Free Cash Flow	2,614	1,628	6,116	5,724	6,463	
Inc (-) / Dec in Investments	-3,902	315	-7,160	-6,077	-4,651	
Others	0	0	0	0	0	
Investing Cash Flow	-7,079	-1,495	-7,909	-7,327	-6,151	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-81	-98	-98	-129	-153	
Inc / Dec (-) in Loans	1,890	-525	2,500	1,750	-300	
Others	-312	-1,121	-727	-967	-1,072	
Financing Cash Flow	1,497	-1,743	1,675	655	-1,525	
Inc / Dec (-) in Cash	208	199	631	302	287	
Opening Cash Balance	1,585	1,794	1,993	2,623	2,925	
Closing Cash Balance	1,794	1,993	2,623	2,925	3,212	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	17,784	23,185	29,221	35,519	43,009	
Share Capital	652	652	652	652	652	
Reserves & Surplus	17,133	22,533	28,569	34,867	42,358	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	5,037	4,512	7,012	8,762	8,462	
Def. Tax Liab. / Assets (-)	280	-375	-375	-375	-375	
Total - Equity & Liab.	23,101	27,322	35,858	43,905	51,096	
Net Fixed Assets	7,066	7,464	6,693	6,255	5,910	
Gross Fixed Assets	10,512	12,522	13,272	14,522	16,022	
Intangible Assets	0	0	0	0	0	
Less: Deprn. & Amort.	4,166	5,100	6,622	8,310	10,155	
Capital WIP	719	42	42	42	42	
Investments	7,447	6,276	14,293	20,370	25,021	
Current Assets	20,580	26,898	27,069	31,605	37,316	
Inventories	2,353	2,967	3,223	3,835	4,551	
Sundry Debtors	8,791	9,177	11,117	12,919	15,480	
Cash & Bank Balances	1,794	1,993	2,623	2,925	3,212	
Loans & Advances	0	15	0	0	0	
Other Current Assets	7,642	12,747	10,106	11,926	14,073	
Current Liab. & Prov.	11,992	13,316	12,198	14,324	17,151	
Current Liabilities	7,437	9,133	7,091	8,437	10,194	
Provisions & Others	4,556	4,183	5,107	5,887	6,957	
Net Current Assets	8,588	13,582	14,872	17,281	20,165	
Total - Assets	23,101	27,322	35,858	43,905	51,096	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	9.5%	8.9%	9.2%	8.9%	8.9%	
Asset Turnover (x)	2.2	2.0	1.9	1.8	1.8	
Leverage Factor (x)	1.3	1.2	1.2	1.2	1.2	
RoE	26.8%	22.2%	21.6%	19.9%	19.5%	

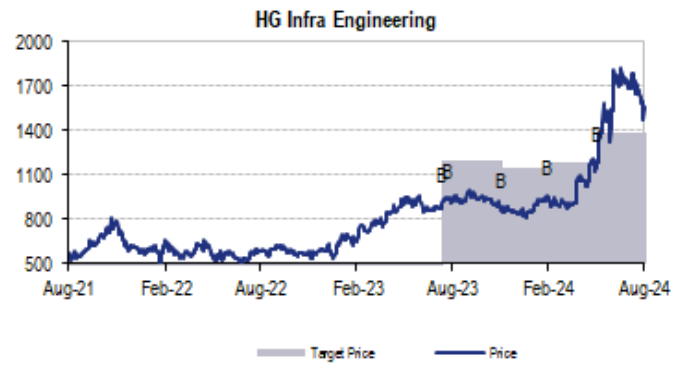
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	272.9	355.8	448.4	545.0	659.9	
ROIC	21.7%	19.0%	18.8%	17.2%	17.0%	
ROE	26.8%	22.2%	21.6%	19.9%	19.5%	
Net Debt/Equity (x)	0.2	0.1	0.2	0.2	0.1	
P/E (x)	9.5	12.9	17.9	15.7	13.2	
P/B (x)	2.2	2.5	3.5	2.8	2.4	
EV/EBITDA (x)	6.1	7.5	10.7	9.5	8.1	
EV/Sales (x)	1.0	1.2	1.7	1.5	1.2	
Debtor days	73	65	66	65	66	
Inventory days	19	21	19	19	19	
Creditor days	73	78	50	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
10-Nov-23	Buy	1,150	-4.1
5-Feb-24	Buy	1,190	3.5
12-May-24	Buy	1,380	16.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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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