

HG Infra Engineering Ltd

BUY

CMP Rs. 334

Target Rs. 444

Upside 33%

Result Highlights

- ✓ The Company has reported net sales of Rs. 10.3bn on standalone basis, a growth of 65.0% yoy and 40.0% qoq (our est. Rs.7.9bn). The net sales for FY21 stood at Rs. 25.3bn up by 15.1% yoy.
- ✓ EBITDA for the quarter came in at Rs. 1.7bn up by 64.2% yoy and 41.0% qoq. The company reported a strong EBITDA margin of 16.2% during Q4 FY21 (16.3% in Q4 FY20).
- ✓ Adjusted PAT almost doubled yoy to Rs. 977 mn.
- ✓ During the quarter, the company won projects totaling ~Rs. 25bn and order book now stands at Rs. 70.4bn (2.8x FY21 Revenue).
- ✓ The total cash and equivalent at the end of FY21 stood at Rs. 2.6bn, up from Rs. 1.1bn as at the end of FY20. The gross standalone debt stood at Rs. 2.9bn which is largely working capital debt.
- ✓ The debtor days as at 31st March 2021 stood at 79 days whereas inventory days at 42 days. The creditor days were at 88 days.
- ✓ Further the company has announced that collection from customers have been normal during the lockdown period enabling the company to meet all its liabilities (including employee payables) in a timely manner and without availing any moratorium as announced by RBI. The company also announced that it doesn't foresee any material impact on revenue and operating cash flow due to the pandemic.
- ✓ The Company has declared a final dividend of Rs. 0.8/share

Our view: The company has significantly enhanced its execution momentum in Q4 FY21 which has led to this robust performance in FY21. The new order addition in Q4 FY21 has further increased the revenue visibility for the company. Hence, we have increased our estimates for FY22 and FY23 to factor in the same. Currently, the stock is trading at 7.4x FY23E EPS. We maintain our BUY rating on the stock for revised target price of Rs.444 (based on SOTP valuation). We assign target multiple of 8x to Construction business and value BOT business at book value.

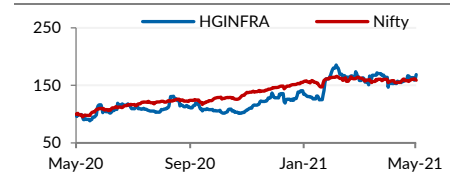
Exhibit 1: Result table (Standalone)

Particulars (Rs mn)	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Total sales	10,278	6,229	65.0	7,343	40.0
EBITDA	1,665	1,014	64.2	1,181	41.0
EBITDAM (%)	16.2	16.3	-8 bps	16.1	11 bps
Depreciation	226	208	8.4	216	4.7
Interest	192	159	21.3	144	33.9
Other income	77	38	104.4	34	125.1
PBT	1,324	685	93.3	856	54.6
Tax	348	172	101.5	201	73.1
Adjusted PAT	977	513	90.5	655	49.0
Exceptional item	0	0	NA	0	NA
Reported PAT	977	513	90.5	655	49.0
PATM (%)	9.5	8.2	127 bps	8.9	58 bps
EPS (Rs.)	15.0	7.9	90.5	10.1	49.0

Stock data (as on May 14, 2021)

Nifty	14,720
52 Week h/l (Rs.)	346 / 151
Market cap (Rs./USD mn)	21767 / 294
Outstanding Shares (mn)	65
6m Avg t/o (Rs. mn):	33
Div yield (%):	0.3
Bloomberg code:	HGINFRA IN
NSE code:	HGINFRA

Stock performance



	1M	3M	1Y
Absolute return	15.0%	-6.4%	75.9%

Shareholding pattern (As of Mar'21 end)

Promoter	74.53%
FII+DII	18.31%
Others	7.16%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	444	297

Financial Summary (Standalone)

Rs. mn	FY21e	FY22e	FY23e
Revenues	25,275	31,568	36,109
yoy growth (%)	15.1	24.9	14.4
Operating profit	4,107	4,791	5,370
OPM (%)	16.2	15.2	14.9
Reported PAT	2,110	2,640	2,961
yoy growth (%)	27.3	25.1	12.2
EPS (Rs)	32.4	40.5	45.4
P/E (x)	10.4	8.3	7.4
EV/EBITDA (x)	5.4	4.6	4.1
Debt/Equity (x)	0.3	0.2	0.2
RoE (%)	22.8	22.7	20.7

Δ in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	32.4	40.5	45.4
EPS (Old)	32.4	30.2	33.2
% change	-	34.1	36.9

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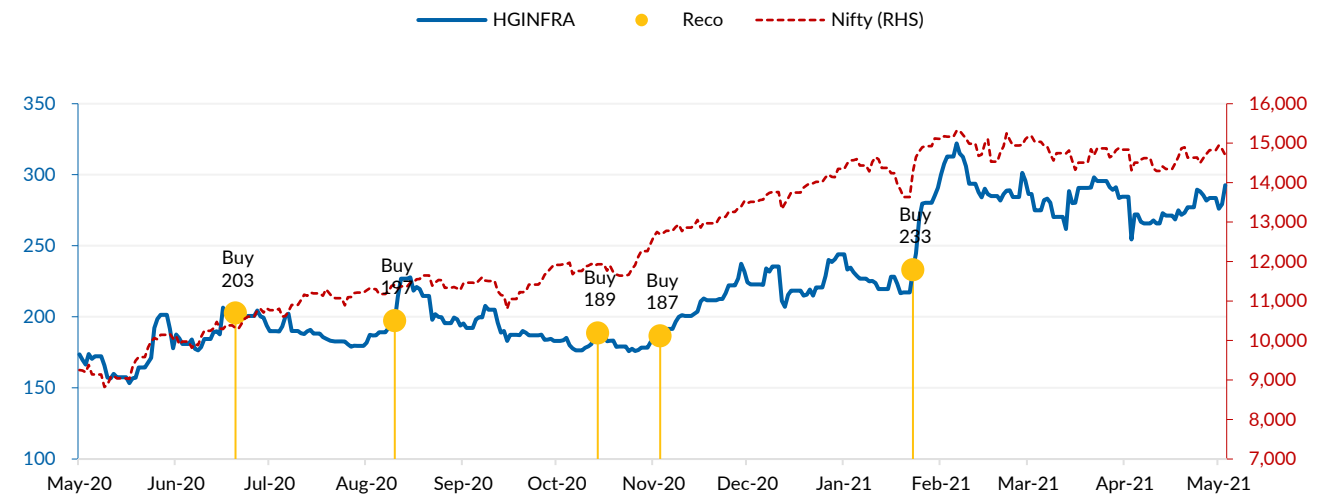
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CON-CALL HIGHLIGHTS

- ✓ The company expects a revenue of ~Rs.32 bn and an EBITDA of ~Rs.5.0 bn in FY22. The company expects that maintaining the current EBITDA margin is a challenge but is confident of no major change as it has been very cautious while bidding for new projects.
- ✓ The company has completed execution of 82% of Rajiv Chowk project, 65% in Narnaul Bypass, 62% in Rewari Ateli Mandi, 62% in Delhi Vadodara Pkg-4 and 50% in Hapur Morradabad. The 3 projects in Rajasthan are at the final stage and the company expects PCoD within 3 months.
- ✓ The company has won 4 new projects in Q4 FY21 with total order value of around Rs. 25bn. The company now has presence in 6 states.
- ✓ The company expects to complete its 4 under construction HAM projects in FY22.
- ✓ The company is also looking towards monetizing its under construction HAM projects and expects to achieve the same for 3 HAM projects in Q3 or Q4 of FY22.
- ✓ The labor availability for the company on an average is around 75-77% and it expect Q1 FY22 to see a dip in revenue of around 10-15% qoq.
- ✓ The company would look for projects beyond road and will bid in Railways, Water, Metro & Airports. The company expects to book new orders worth around Rs.50.0 bn in FY22 of which around Rs.10.0 bn is targeted in railways and airports.
- ✓ The company has further strengthened its business team and added senior resources for increasing and diversifying its order book and focus on execution.
- ✓ The company expects NHAI to bid around 4,500 to 4,800 km of highway projects in FY22.
- ✓ The balance equity investment for the existing HAM projects is around Rs. 1.1bn of which Rs. 870 mn will be invested in FY22 and balance Rs. 210 mn in FY23. The total equity requirement for the new won 3 HAM projects would be around Rs. 3.6 bn. The total equity investment in FY22 would be around Rs. 1.9 bn and around Rs. 3.0 bn in FY23 & FY24
- ✓ The company has significantly strengthened its net working capital cycle to 33 days and expects to maintain it around current level.
- ✓ The company expects a capex of Rs. 800mn and expect to dispose off old equipment of around Rs. 350mn to Rs.400mn in FY22.
- ✓ The total mobilization advance is around Rs. 2.6bn and including other advances from clients the total customer advance is at Rs. 3.2bn. The company has additional mobilization advance of Rs.1.0bn that it can avail. Retention money stood at Rs. 2.2bn
- ✓ The company has escalation clause for all its projects so it doesn't foresee any adverse impact on margins due to the increase in raw material cost.
- ✓ The balance from GVK is around Rs.183 mn which the company has already provided for and the balance from Tata is around Rs.270 mn
- ✓ The total bank limits for the company stood at Rs. 11.2bn of which Rs. 1.4bn is fund based and balance is non-fund based. Further the company has applied to enhance it limits to Rs. 15.4bn.

Recommendation Tracker



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BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

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