HG Infra Engineering (HGINF)

ICICI direct Research

CMP: ₹ 333 | Target: ₹ 420 (26%) | Target Period: 12 months

BUY

May, 15, 2021

Healthy execution; strong growth outlook…

HG Infra Engineering (HG Infra) reported a robust set of Q4FY21 numbers. Standalone revenue improved 65% YoY to ₹ 1,027.8 crore, clearly reflecting the sharp pickup in execution aided by healthy order book position and normalisation of labour availability/raw material supply chain post Covid-19 related disruptions. Also, operating profit margin was at an elevated 16.2%, down 8 bps YoY, on account of better project mix. At PAT level, robust operating performance translated into 90.5% YoY growth (to ₹ 97.7 crore).

Healthy order book position; execution pace to remain robust

HG Infra's order book at the end of March 2021 was healthy at ₹ 7,040 crore (2.8x order book to FY21 revenues), mainly backed by strong order inflows secured in Q4FY21 (bid project cost: ₹ 2,564 crore; EPC value: ₹ 1,933 crore). Going forward, the management has guided for order inflows of ₹ 5,000-6,000 crore in FY22 to be driven by a strong order pipeline in roads segment and growing opportunities in the other infrastructure verticals. On the execution front, the strong momentum is likely to continue with a) its healthy order book position, b) receipt of appointed date in most of its projects, and c) desired level of labour/raw material on-site. With these, the management has guided for 25-30% growth in FY22E. Additionally, operating margin is likely to sustain at 15.5-16%, going ahead as escalation clause would ensure no major hit in margins owing to higher raw material prices.

Balance sheet to remain lean despite equity commitments

HG Infra's balance sheet has remained lean over the years backed by its prudent strategy to mainly focus on an asset light business model and efficient manage working capital. At the end of March 2021, its gross debt/cash and cash equivalent at the standalone level was at ₹ 289 crore, ₹ 258 crore, respectively. Going forward, the company has an equity requirement of ₹ 108 crore, ₹ 355 crore mainly towards four under-execution, newly secured three HAM projects, respectively, which are required to spend over the next couple of years. Despite these, we expect its debt to remain at comfortable levels with healthy operating cash flow generation arising from improved profitability. Also, monetisation of its hybrid annuity assets would increase its ability to bag newer projects.

Valuation & Outlook

Considering its healthy executable order book position and robust execution skill, we expect a pick-up in execution momentum to continue in the near-to-medium term. Likewise, we revise our revenue estimate upwards for FY22 and FY23 while retaining elevated level of margins to the tune of 15.5-16%. Its lean balance sheet position and healthy return ratios provide additional comfort. We maintain **BUY** rating on the stock with a revised SoTP target price of ₹ 420 (earlier ₹ 380).

Particulars

Particular	Amount
Market Capitalization	2,167.9
Debt (FY21)	226.7
Cash & equivalent (FY21)	258.4
EV	2,136.2
52 week H/L (₹)	346 / 150
Equity capital	65.2
Face value	₹ 10

Key Highlights

- Strong order backlog at ~₹ 7,040 crore, provides revenue visibility over next two to three years
- Maintain BUY with revised target price of ₹ 420/share

Key risks to our Call

- Extended period of lockdown leading to weaker than expected execution
- Higher competitive intensity in project bidding

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales	2,009.8	2,196.1	2,527.5	3,095.6	3,464.7	17.1%
EBITDA	303.2	342.4	410.7	483.4	542.5	14.9%
Net Profit	123.6	165.7	211.0	260.9	289.1	17.1%
EPS (₹)	19.0	25.4	32.4	40.0	44.4	
P/E (x)	17.5	13.1	10.3	8.3	7.5	
Price / Book (x)	3.3	2.6	2.1	1.7	1.4	
EV/EBITDA (x)	8.1	7.1	5.2	4.1	3.6	
RoCE (%)	22.7	23.2	27.3	26.0	24.3	
RoE (%)	18.7	20.2	20.4	20.3	18.4	

Source: Company, ICICI Direct Research

Exhibit 1: Variance analysis

Particulars	Q4 FY21	Q4 FY21E	Q4 FY20	Q3 FY21	YoY (%)	QoQ (%)	Comments
Total Operating Income	1,027.8	772.8	622.9	734.3	65.0	40.0	Pick-up execution led to topline beat
Other Income	7.7	1.9	3.8	3.4	104.4	125.1	
Consumption of raw materials	821.7	568.1	480.6	577.2	71.0	42.4	
Employee benefit expenses	29.6	22.1	29.1	31.5	1.9	-5.9	
Other Expenses	10.0	24.1	11.8	7.6	-14.8	32.7	
EBITDA	166.5	120.0	101.4	118.1	64.2	41.0	
EBITDA Margin (%)	16.2	15.5	16.3	16.1	-8 bps	11 bps	
Depreciation	-22.6	-23.4	-20.8	-21.6	8.4	4.7	
Interest	-19.2	-16.3	-15.9	-14.4	21.3	13.4	
PBT	132.4	82.2	68.5	85.6	93.3	-4.0	
Taxes	-34.8	-22.0	-17.2	-20.1	101.5	73.1	
PAT	97.7	60.1	51.3	65.5	90.5	49.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	2,774.2	3,095.6	11.6	3,153.4	3,464.7	9.9	Realign estimates post Q4
EBITDA	432.4	483.4	11.8	493.5	542.5	9.9	
EBITDA Margin (%)	15.6	15.6	3 bps	15.7	15.7	1 bps	
PAT	216.5	260.9	20.5	251.9	289.1	14.8	
EPS (₹)	33.2	40.0	20.5	38.6	44.4	14.8	

Source: Company, ICICI Direct Research

Conference call Highlights

- **Order book and inflows:** After the muted order inflows in 9MFY21 largely marred by highly competitive bids by road developers, HG Infra has secured four projects in Q4FY21 (bid project cost: ₹ 2,564 crore; EPC value: ₹ 1,933 crore), which aided its overall order book to remain healthy at ₹ 7,040 crore at Q4-end (2.8x order book to TTM revenues). The order book is majorly contributed by roads - EPC (59%) and roads - HAM (41%) segments. Geographically, Rajasthan formed 38% of the overall order book, followed by Telangana (28%), Andhra Pradesh (11%), Haryana (10%), Uttar Pradesh (10%), and Maharashtra (3%). Going forward, the management has guided for order inflows of ₹ 5,000-6,000 crore in FY22 to be driven by strong order pipeline in roads segment from NHAI (worth ₹ 45,000-50,000 crore currently) and growing opportunities in other infrastructure verticals such as Railways, Metro, Airport and water supply. The company is targeting ~₹ 3,000 crore worth of projects from roads- EPC segment, ~₹ 2,000 crore from roads-HAM segment and ~₹ 1,000 crore from other infrastructure verticals

- **Guidance**: Project execution has gathered pace during Q4FY21 with receipt of appointed date in most projects, improved labour availability and smoothening of raw material supply chain. Going forward, while the second wave of Covid-19 is likely to impact improved project execution pace with less labour availability (~75% of overall labour strength), the company has guided to achieve topline growth of 25-30% in FY22. Additionally, operating margin is likely to remain elevated at 15.5-16% with better project mix. Also, the management does not expect major impact of volatility in commodity prices on its margin performance with built-in raw material price variation clauses in most of its contracts

- **HAM projects:** HG Infra currently has a portfolio of seven HAM projects. Among major projects, the company has completed a) 82% physical execution in Gurgaon-Nuh (Rajiv Chowk), b) 62% in Rewari Ateli Mandi, c) 65% in Narnual Bypass, and d) 28% in Rewari Bypass package-4. In the newly won three HAM projects, the land acquisition process is in early-to-mid level stages. The management expects receipt of appointed date during Q4FY22

- **Equity requirement:** Out of the total equity requirement of ₹ 369 crore towards the under-execution four HAM projects, HG Infra has already infused ₹ 261 crore till March 2021. The management has guided for ₹ 87 crore, ₹ 21 crore equity infusion towards HAM projects during FY22E, FY23E, respectively. Additionally, the company expects equity infusion of ₹ 355 crore in newly secured three HAM projects spread over the next couple of years from the receipts of appointed date

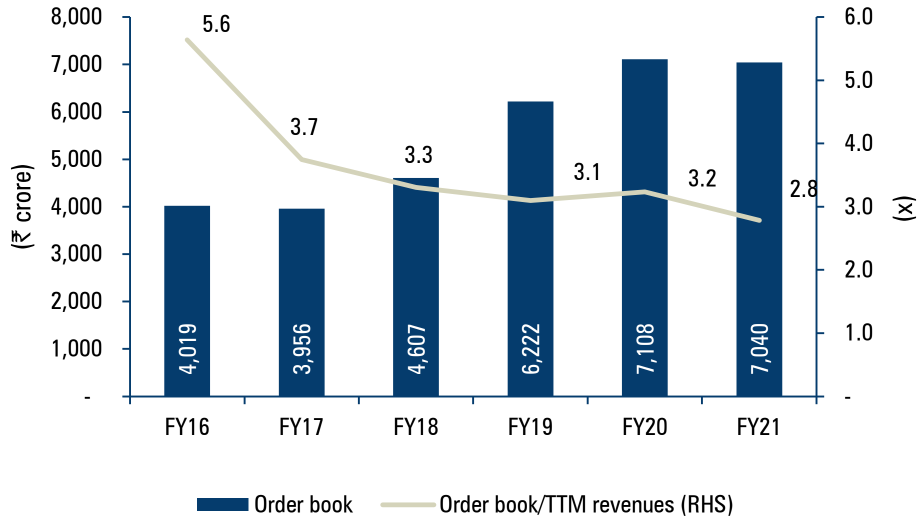
- **Asset monetisation:** HG Infra has already initiated discussions with potential buyers regarding monetisation of its four hybrid annuity assets and is making some headway. The management is optimistic of its chances to monetise these assets during FY22

- **Debt:** Gross standalone debt, cash and cash balance at the end of March 2021 was at ₹ 289 crore, ₹ 258 crore, respectively. The management expects debt to remain nearby current levels to be backed by healthy profitability, better cash flow management and normalisation of working capital requirements

- **Capex**: The company has incurred ~₹ 90 crore gross towards capex during FY21 and has guided for ~₹ 75 crore during FY22E

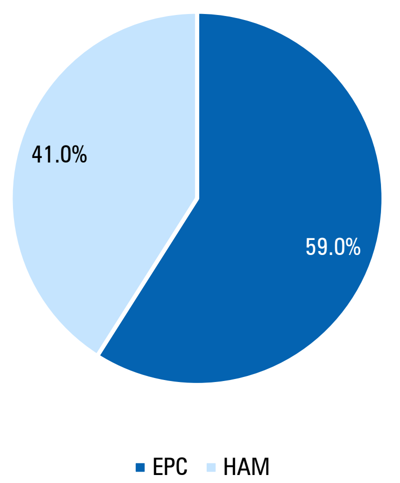
Company Analysis

Exhibit 3: Order book position at comfortable level



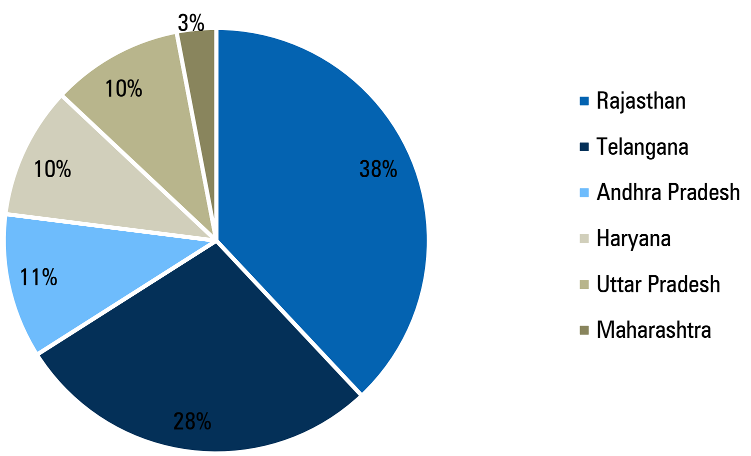
Source: Company, ICICI Direct Research

Exhibit 4: EPC projects contributes majority to order book



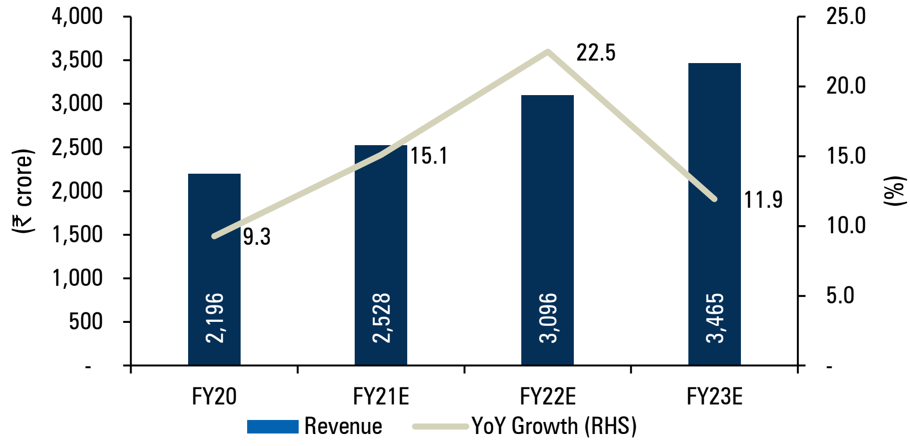
Source: Company, ICICI Direct Research

Exhibit 5: Well-diversified order book position



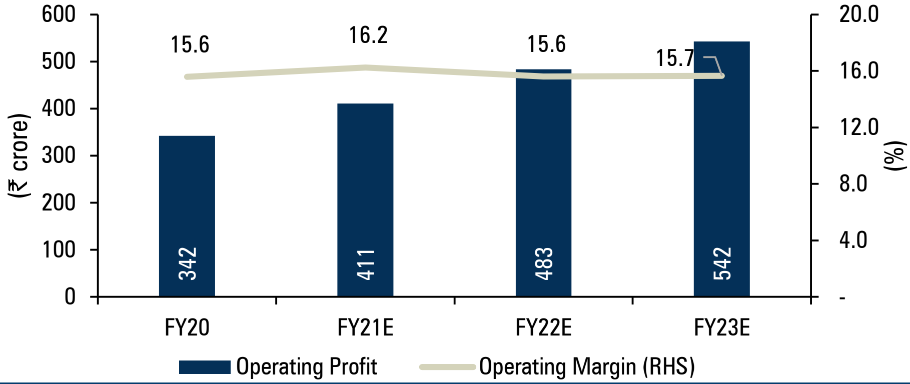
Source: Company, ICICI Direct Research

Exhibit 6: Strong momentum in revenue to continue



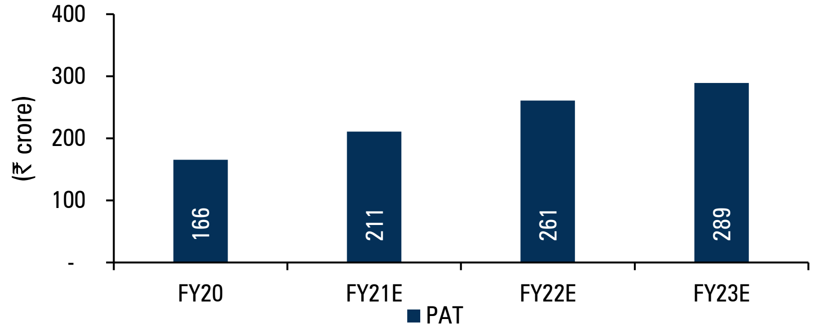
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA & EBITDA margin trend



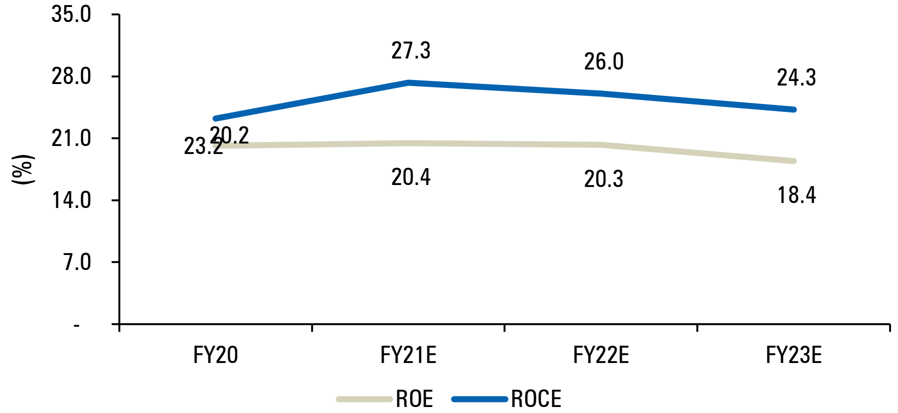
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



Source: Company, ICICI Direct Research

Valuation & Outlook

HG Infra has successfully demonstrated its capabilities by emerging as a primary road developer. Further, a) its healthy order book position, b) strong execution capabilities, c) elevated operating margin, d) well managed balance sheet and e) healthy return ratios place the company in a sweet spot. Additionally, better-than-expected order inflows and monetisation of HAM assets can act as a positive trigger.

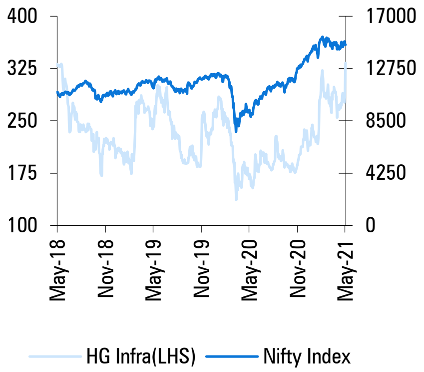
Hence, we maintain our **BUY** recommendation on the stock with an SoTP based revised target price of ₹ 420/share. We value the EPC business at ₹ 379/share based on 8.5x FY23E earnings and HAM projects at ₹ 40/share on 1x investment done till date.

Exhibit 10: SoTP Valuation

Particular	Valuation method	₹ /share
Standalone EPC business	8.5x FY23E EPS	379
HAM Projects	1x P/B	40
Total (Rounded off)		**420**

Source: Company, ICICI Direct Research

Exhibit 11: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	**2,196.1**	**2,527.5**	**3,095.6**	**3,464.7**
Growth (%)	9.3	15.1	22.5	11.9
Raw Material Cost	1,706.4	1,980.8	2,454.8	2,740.6
Employee Cost	111.4	109.3	119.6	136.1
Other Expenditure	36.0	26.7	37.8	45.6
Total Operating Expenditure	1,853.8	2,116.8	2,612.2	2,922.3
EBITDA	**342.4**	**410.7**	**483.4**	**542.5**
Growth (%)	12.9	19.9	17.7	12.2
Other income	13.7	15.4	17.0	17.3
Depreciation	75.6	84.4	95.4	106.0
EBIT	280.4	341.7	405.0	453.8
Interest	52.4	59.6	56.3	67.3
PBT	228.1	282.1	348.7	386.6
Tax	62.3	71.2	87.9	97.4
Rep. PAT	**165.7**	**211.0**	**260.9**	**289.1**
Exceptional items				
Adj. Net Profit	**165.7**	**211.0**	**260.9**	**289.1**
Growth (%)	34.1	27.3	23.7	10.8
EPS (₹)	**25.4**	**32.4**	**40.0**	**44.4**

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore

(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	165.7	211.0	260.9	289.1
Depreciation	75.6	84.4	95.4	106.0
Interest	52.4	59.6	56.3	67.3
Others	(14.0)	(16.3)	(17.0)	(17.3)
Cash Flow before wc changes	279.7	338.7	395.5	445.0
Net Increase in Current Assets	(379.1)	186.0	(297.9)	(191.1)
Net Increase in Current Liabilities	341.9	56.2	292.2	138.2
Net CF from operating activities	**242.5**	**580.9**	**389.7**	**392.2**
Net purchase of Fixed Assets	(107.2)	(75.7)	(75.3)	(74.8)
Others	(61.5)	(146.6)	(114.0)	(218.3)
Net CF from Investing Activities	**(168.7)**	**(222.4)**	**(189.3)**	**(293.1)**
Proceeds from share capital	0.6	2.9	0.0	0.0
Proceeds/Repayment from Loan	(3.9)	(154.6)	47.2	32.5
Interest paid	(52.4)	(59.6)	(56.3)	(67.3)
Others	(3.9)	(3.3)	(5.2)	(6.5)
Net CF rom Financing Activities	**(59.6)**	**(214.5)**	**(14.3)**	**(41.3)**
Net Cash flow	**14.2**	**144.0**	**186.2**	**57.7**
Opening Cash and Cash Equivalent	100.2	114.4	258.4	444.6
Closing Cash & cash equivalents	**114.4**	**258.4**	**444.6**	**502.3**

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity capital	65.2	65.2	65.2	65.2
Reserves & Surplus	756.4	967.0	1,222.7	1,505.3
Networth	821.6	1,032.2	1,287.9	1,570.5
Loan Funds	381.3	226.7	273.9	306.3
Deferred Tax liability	(8.7)	(9.5)	(9.5)	(9.5)
Other financial liabilities	12.2	2.6	3.2	3.8
Total Liabilities	**1,206.5**	**1,252.0**	**1,555.3**	**1,871.1**
Assets				
Net Block	482.4	483.1	463.0	431.9
Capital WIP	11.1	1.8	1.8	1.8
Non-current Investments	90.8	261.2	388.4	619.4
Othe non-current assets	25.1	16.8	20.6	25.2
Loans	-	-	-	-
Inventories	105.5	168.0	186.6	189.8
Trade Receivables	811.1	657.5	848.1	949.2
Cash & Bank Balances	114.4	258.4	444.6	502.3
Loans & Advances	7.4	5.0	5.0	5.0
Other current assets	411.8	319.3	408.1	494.8
Total current assets	1,450.3	1,408.2	1,892.4	2,141.2
Total Current liabilities	853.3	919.2	1,210.8	1,348.3
Net Current Assets	596.9	489.1	681.6	792.9
Total Assets	**1,206.5**	**1,252.0**	**1,555.3**	**1,871.1**

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	25.4	32.4	40.0	44.4
Cash EPS	37.0	45.3	54.7	60.6
BV per share	126.1	158.4	197.6	241.0
Revenue per share	337.0	387.8	475.0	531.6
Cash Per Share	17.6	39.7	68.2	77.1
Operating Ratios (%)				
EBITDA Margin	15.6	16.2	15.6	15.7
EBIT/ Net Sales	12.1	12.9	12.5	12.6
PAT Margin	7.5	8.3	8.4	8.3
Inventory days	17.5	24.3	22.0	20.0
Debtor days	134.8	95.0	100.0	100.0
Creditor days	103.5	72.0	82.0	81.0
Return Ratios (%)				
RoE	20.2	20.4	20.3	18.4
RoCE	23.2	27.3	26.0	24.3
RoIC	24.8	33.0	35.1	32.0
Valuation Ratios (x)				
P/E	13.1	10.3	8.3	7.5
EV / EBITDA	7.1	5.2	4.1	3.6
EV / Net Sales	1.1	0.8	0.6	0.6
Price to Book Value	2.6	2.1	1.7	1.4
Solvency Ratios (x)				
Debt / EBITDA	1.1	0.6	0.6	0.6
Net Debt / Equity	0.3	(0.0)	(0.1)	(0.1)

Source: Company, ICICI Direct Research

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