

Retail Equity Research

H.G. Infra Engineering Ltd.

Infrastructure

BSE CODE : 541019

NSE CODE: HGINFRA

BLOOMBERG CODE: HGINFRA:IN

SENSEX : 73,917

Accumulate

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 1,394 TARGET Rs. 1,611 RETURN 16% ↑

(Closing: 17-05-24)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Exploring new horizons...

HG Infra Engineering Ltd. (HG Infra) is one of the emerging EPC players in India, with over two decades of rich experience in road construction. It is primarily engaged in roads and allied sectors like flyovers, bridges, and irrigation.

- The order book remains healthy at Rs. 12,434cr (2.4x FY24 revenue), providing revenue visibility for the next 2 to 3 years.
- The company is strategically tapping new opportunities beyond the roads and has secured its maiden solar projects worth Rs 1,307cr in Rajasthan which will augur well for growth.
- Revenue grew by 11% YoY in Q4FY24, which is below our estimate due to a delay in project awarding by NHAI.
- The company expects an order inflow of Rs 11,000cr of new orders in FY25, and we expect the order book to grow at a CAGR of 29% over FY24-FY26E.
- The company guided top-line growth of 15-20% YoY in FY25 with an EBITDA margin of ~16%, aided by a strong order book.
- Due to the recent uptick in price, we revise our rating to Accumulate and value the standalone business at a P/E of 16x FY26E and HAM projects at 0.8x P/BV with a TP of Rs.1,611.

Diversification to drive growth...

HG Infra's order book remains healthy at Rs 12,434cr in FY24, which is 2.4x FY24 revenue and provides revenue visibility in the coming years. The company expects an order inflow of Rs 11,000cr to Rs 12,000cr in FY25. The company has received Rs 4,350cr orders in FY24, which is below the previous guidance given by the management due to a delay in project approvals by NHAI and the general election. Currently, the company is expanding its projects opportunities beyond the road and received its maiden order from a solar project worth Rs 2,340cr with a capacity of 543MW. The project will be done with a 65:45 JV with Stockwell Solar services. The company's order book comprises; road (68%), rail (21%) and solar 911%). The majority of the orders are coming from UP (21%), followed by Jharkhand (20%), Rajasthan (11%), and AP (8%).The total equity investments in HAM projects stand at Rs 694cr and expected to invest Rs505cr in FY25E. We expect traction in new orders in FY25/FY26E which will aid its order book to grow at a CAGR of 29% over FY24-FY26E.

Execution to pickup pace...

In Q4FY24, revenue grew by 11.2% YoY to Rs1,635cr, which is below our estimate due to delays in project approvals by NHAI. However, the FY24 top-line grew by 16% YoY to Rs 5122cr. The management expects execution to pick up pace and guide top-line growth of 15-20% for FY25. We, therefore, marginally increased our revenue estimate by 1% and 4% respectively for FY25/26. The company expects appointed date for Jamshedpur projects of Rs 610cr (90% land available) and Tirupati project (90% land available) by June and September respectively. While Jharkhand pkg 10 and 13 of Rs 2,228cr by Q3FY25. EBITDA margin during the quarter stood at 16.2%, aided by benign input costs and improved execution. We expect margins to remain at a strong level of 15.5% to 16% for FY25/FY26 on account of pick-ups in execution.

Valuation & Outlook...

The increasing opportunities in road projects, along with a current order backlog at 2.5x FY24 revenue, ensure strong business visibility. The management is prioritizing the diversification of the order book and maintaining a healthy margin profile to drive future growth. Due to recent uptick in stock price, we revise our rating to Accumulate from BUY & value for standalone businesses at a P/E of 16x FY26E EPS and HAM projects at 0.8x P/BV with a TP of Rs.1,611.

Company Data

Market Cap (cr)	₹ 9,085
Enterprise Value (cr)	₹ 9,304
Outstanding Shares (cr)	6.5
Free Float	25.5%
Dividend Yield	0.0%
52 week high	₹ 1,426
52 week low	₹ 806
6m average volume (cr)	0.3
Beta	0.73
Face value	₹ 10

Shareholding (%)

	Q2FY24	Q3FY24	Q4FY24
Promoters	74.5	74.5	74.5
FII's	1.7	1.6	1.7
MFs/Insti	13.1	12.5	12.5
Public	10.8	11.5	11.3
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil

Price Performance

	3 Month	6 Month	1 Year
Absolute Return	33%	41%	26%
Absolute Sensex	2%	12%	17%
Relative Return*	31%	29%	9%

*over or under performance to benchmark index



Standalone (cr)

	FY24A	FY25E	FY26E
Sales	5,122	5,976	6,810
Growth (%)	15.9	16.7	14.0
EBITDA	822	944	1,055
EBITDA Margin(%)	16.0	15.8	15.5
PAT Adj.	439	536	613
Growth (%)	4.1	22.1	14.5
Adj.EPS	67.3	82.2	94.1
Growth (%)	4.1	22.1	14.5
P/E	20.7	17.0	14.8
P/B	4.1	3.3	2.7
EV/EBITDA	11.4	9.9	8.8
ROE (%)	27.3	21.7	20.2
D/E	0.2	0.1	0.1

Antu Eapen Thomas
Research Analyst

SOTP Valuation

Particulars	Invested Equity	Value per share	Rationale
Standalone FY25 EPS		1505	P/E16x FY26E EPS
HAM Projects	694	106	1x P/BV
Total		1611	

Quarterly Financials (Standalone)

Profit & Loss

Rs (cr)	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Sales	1,635	1,470	11.2	1,347	21.4	5,122	4,419	15.9
EBITDA	265	238	11.3	214	23.4	822	710	15.7
EBITDA margins (%)	16.2	16.2	1bps	15.9	26bps	16.1	16.1	-2bps
Depreciation	38	26	45.6	37	3.5	141	96	46.5
EBIT	227	212	7.1	178	27.5	681	614	10.9
Interest	19	19	2.6	23	-14.1	81	63	28.0
Other Income	5	8	-40.8	3	79.8	13	18	-30.2
Exceptional Items	0	0	-	0	-	107	0	-
PBT	212	200	5.6	264	-19.9	719	569	26.5
Tax	52	53	-1.9	59	-11.8	174	147	17.9
Reported PAT	160	148	8.3	206	-22.2	546	421	29.5
Adjustments	0.0	0.0	0.0	-106.7	-	-106.7	0.0	0.0
Adj PAT	160	148	8.3	99	61.7	439	421	4.2
No. of Shares	6.5	6.5		6.5		6.5	6.5	
Adj.EPS (Rs)	24.5	22.7	8.3	15.2	61.7	67.4	64.7	4.2

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,928	6,565	5,976	6,810	0.8	3.7
EBITDA	919	998	944	1,055	2.7	5.8
Margins (%)	15.5	15.2	15.8	15.5	30bps	30bps
Adj. PAT	530	523	536	613	1.1	17.2
EPS	81.3	89.5	82.2	94.1	1.1	5.1

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	3,616	4,419	5,122	5,976	6,810
% change	42.6	22.2	15.9	16.7	14.0
EBITDA	650	710	822	944	1,055
% change	43.4	9.2	15.7	14.9	11.8
Depreciation	85	96	141	151	155
EBIT	565	614	681	793	900
Interest	53	63	81	89	95
Other Income	6.7	18.1	12.6	15.0	18.0
PBT	519	569	719	719	823
% change	63.8	9.6	26.5	0.0	14.5
Tax	116	147	174	183	210
Tax Rate (%)	22.3	25.9	24.2	25.5	25.5
Reported PAT	404	421	545	536	613
Adj*	1	0	107	0	0
Adj PAT	403	421	439	536	613
% change	64.8	4.5	4.1	22.1	14.5
No. of shares (cr)	6.5	6.5	6.5	6.5	6.5
Adj EPS (Rs.)	61.8	64.7	67.3	82.2	94.1
% change	64.8	4.5	4.1	22.1	14.5
DPS (Rs.)	0.8	1.0	1.3	1.5	1.7

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	605	665	860	870	978
Non-cash adj.	-41	81	136	125	178
Changes in W.C	-363	-244	-236	-279	-183
C.F. Operation	179	475	709	690	896
Capital exp.	-68	-251	-80	-50	-50
Change in inv.	-93	-182	-272	-327	-458
Other invest.CF	-12	-12	5	-3	-4
C.F - Investment	-173	-444	-348	-380	-511
Issue of equity	0	0	0	0	0
Issue/repay debt	-29	167	-121	-99	-105
Dividends paid	-5	-7	-8	-9	-11
Other finance.CF	0	-7	-6	-8	-8
C.F - Finance	-34	27	-429	-297	-327
Chg. in cash	-28	57	-67	13	57
Closing cash	159	216	149	162	219

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	159	216	149	162	219
Accounts Receivable	700	908	1,052	1,228	1,399
Inventories	184	223	248	340	390
Other Cur. Assets	494	605	716	933	1,063
Investments	363	545	817	1,144	1,601
Gross Fixed Assets	809	1,059	1,139	1,189	1,239
Net Fixed Assets	448	602	541	440	334
CWIP	2	3	3	3	3
Intangible Assets	2	2	2	2	2
Def. Tax (Net)	11	12	13	14	14
Other Assets	39	47	54	62	71
Total Assets	2,402	3,163	3,595	4,328	5,098
Current Liabilities	777	893	936	1,142	1,310
Provisions	52	53	50	61	70
Debt Funds	205	435	395	385	375
Other Liabilities	4	3	3	4	4
Equity Capital	65	65	65	65	65
Reserves & Surplus	1,299	1,714	2,145	2,671	3,273
Shareholder's Fund	1,364	1,779	2,210	2,736	3,338
Total Liabilities	2,402	3,163	3,595	4,328	5,098
BVPS (Rs.)	209	273	339	420	512

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	18.0	16.1	16.0	15.8	15.5
EBIT margin (%)	15.6	13.9	13.3	13.3	13.2
Net profit mgn.(%)	11.2	9.5	10.7	9.0	9.0
ROE (%)	33.7	26.8	27.3	21.7	20.2
ROCE (%)	31.0	25.3	26.0	21.8	20.7
W.C & Liquidity					
Receivables (days)	69.3	66.4	69.9	69.6	70.4
Inventory (days)	17.7	16.8	16.8	18.0	19.6
Payables (days)	101.4	92.7	97.4	91.0	93.6
Current ratio (x)	1.8	1.8	1.9	2.0	2.0
Quick ratio (x)	1.0	1.1	1.1	1.0	1.1
Turnover & Leverage					
Gross asset T.O (x)	4.6	4.7	4.7	5.1	5.6
Total asset T.O (x)	1.6	1.6	1.5	1.5	1.4
Int. coverage ratio (x)	10.7	9.7	8.4	8.9	9.4
Adj. debt/equity (x)	0.2	0.2	0.2	0.1	0.1
Valuation					
EV/Sales (x)	2.4	2.1	1.8	1.6	1.4
EV/EBITDA (x)	13.6	13.1	11.4	9.9	8.8
P/E (x)	22.5	21.6	20.7	17.0	14.8
P/BV (x)	6.7	5.1	4.1	3.3	2.7

Recommendation Summary (Last 3 years)



Dates	Rating	Target
27-Apr-2023	HOLD	960
03-Aug-2023	BUY	1137
14-Feb-2024	BUY	1120
18-May-2024	Accumulate	1611

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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