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BUY HG Infra Engineering

Solid infra play in a post-election upcycle

Construction & Infrastructure ▸ Initiating Coverage ▸ July 9, 2024

TARGET PRICE (Rs) : 2,100

We re-initiate coverage on HG Infra (HGIEL) with a BUY and SOTP-based TP of Rs2,100/sh. HGIEL's makeover from a small subcontractor into a diversified infra play offers best-in-class operating & financial metrics and has supported swift, stress-free growth. HGIEL's mainstay (roads) saw order slow-down in FY24 in the run up to the elections and due to restrictions on MoRTH-NHAI (cost overrun in *Bharatmala*, NHAI issues, aggressive past). But the GoI's new *Vision India@2047* plan in a post-election cycle is expected to revive awarding (mgmt. guides to Rs120bn total inflows in FY25 vs Rs45bn in FY24). HGIEL is also expanding into Railways where focus on high-speed corridors, freight, & station upgrade should support mid-term growth. Solar and Water are other prospects, with Rs13bn worth orders already secured under solar scheme *Kusum*.

HG Infra Engineering: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	44,185	51,217	63,222	76,150	92,994
EBITDA	7,103	8,220	10,115	11,994	14,089
Adj. PAT	4,214	4,645	5,671	6,725	8,255
Adj. EPS (Rs)	64.7	71.3	87.0	103.2	126.7
EBITDA margin (%)	16.1	16.0	16.0	15.8	15.2
EBITDA growth (%)	21.5	15.7	23.1	18.6	17.5
Adj. EPS growth (%)	24.4	10.2	22.1	18.6	22.7
RoE (%)	26.8	17.5	21.9	21.0	21.0
RoIC (%)	37.6	25.0	33.2	38.7	43.4
P/E (x)	26.3	23.9	19.5	16.5	13.4
EV/EBITDA (x)	16.1	13.8	11.5	9.8	8.1
P/B (x)	6.2	4.8	3.9	3.1	2.6
FCFF yield (%)	2.1	0.8	4.9	5.8	7.2

Source: Company, Emkay Research

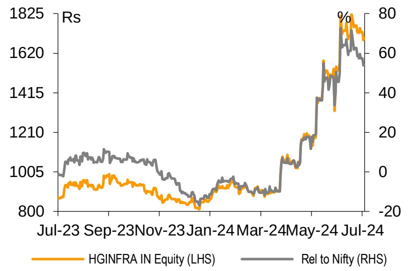
Target Price – 12M	Sep-25
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NR
Upside/(Downside) (%)	23.5
CMP (09-Jul-24) (Rs)	1,700.6

Stock Data	Ticker
52-week High (Rs)	1,870
52-week Low (Rs)	805
Shares outstanding (mn)	65.2
Market-cap (Rs bn)	111
Market-cap (USD mn)	1,327
Net-debt, FY25E (Rs mn)	5,459
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	595.9
ADTV-3M (USD mn)	7.1
Free float (%)	25.5
Nifty-50	24,433
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	74.5
FPIs/MFs (%)	1.7/12.5

Price Performance

(%)	1M	3M	12M
Absolute	11.1	55.5	91.6
Rel. to Nifty	5.9	44.1	51.6

1-Year share price trend (Rs)



Order inflows to accelerate in a post-election cycle

Road infra development—a priority for the GoI—has been going strong since the last decade. We foresee the robust construction trend to sustain in the medium term. Though FY24 saw a slowdown in the pace of awarding mainly due to the elections, the financial embargo on NHAI, and significant cost overruns in flagship programs, we expect a pick-up in coming few months. Further announcements of highway network development under the new *Vision India@2047* could drive a spurt in awarding. HGIEL expects its railways and solar portfolios to see rapid growth as well, besides water being a new area.

Best-in-class metrics; support systems in place for future growth

HGIEL is efficient in terms of supply chain and inventory management. It attempts to pre-empt consumption patterns and minimize inventory to the maximum extent. The company has clocked RoE of >20% vs. 11-16% for peers. It has a stable balance sheet with an adequate resource base (employees, gross block). Also, HGIEL's digitalization initiatives are top-notch, with deft working capital management (30-40 days).

We expect CAGR of 21-22% each in revenue and APAT during FY24-27E

We estimate 22%/20%/21% standalone revenue/EBITDA/APAT CAGR over FY24-27E, on the back of strong order inflows in the roads segment which would be supported by pickup in awarding activities and a clearer direction under the GoI's *Vision India@2047*. HGIEL's foray into the railways, water, and solar segments offers a steady mid-to-long term earnings visibility, with solar likely to throw up monetization opportunities like HAM.

We re-initiate coverage on HGIEL with a BUY, SOTP-based TP of Rs2,100/sh

We value HGIEL using the SOTP method: its SA EPC business stands at Rs1,839/sh (16x Sep-26E EPS), HAM projects at Rs228/sh (equity investment till FY24 has been assigned 1.5x, and infusions for FY25-26E are assigned 0.5x), and solar business at Rs33/sh (0.5x Sep-25E equity infusion). *Key risks: project delays, economic & policy scenario, competition, and commodity price volatility in consumables.*

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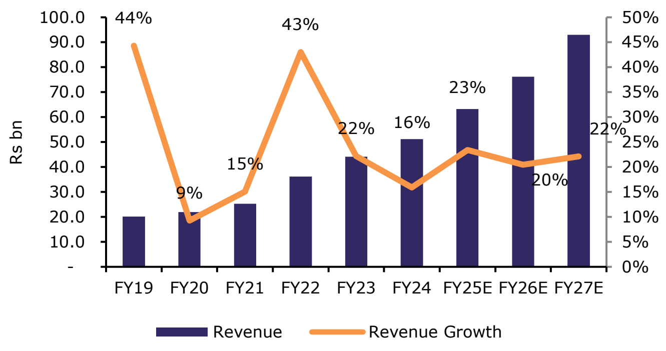
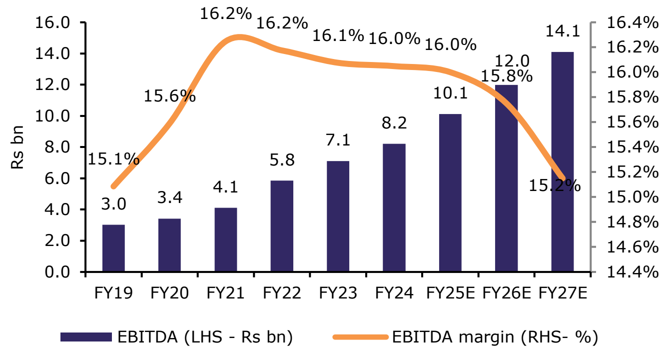
Story in Charts

Exhibit 1: HGIEL's revenue CAGR expected at 22% over FY24-27E…



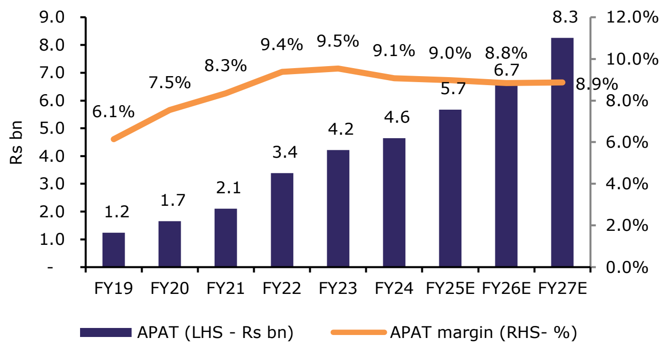
Source: Company, Emkay Research

Exhibit 2: … supported by stable EBITDA margin profile of 15-16%



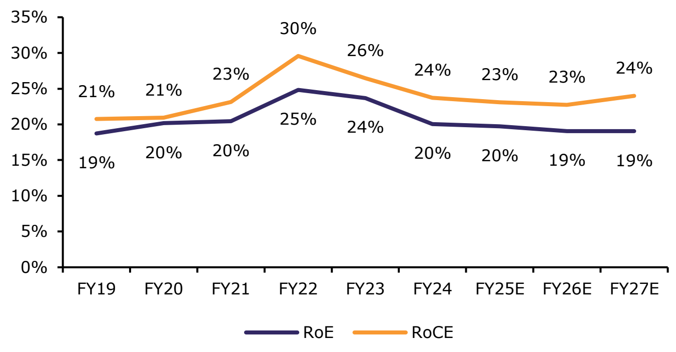
Source: Company, Emkay Research

Exhibit 3: APAT CAGR likely at 21% over FY24-27E resulting in…



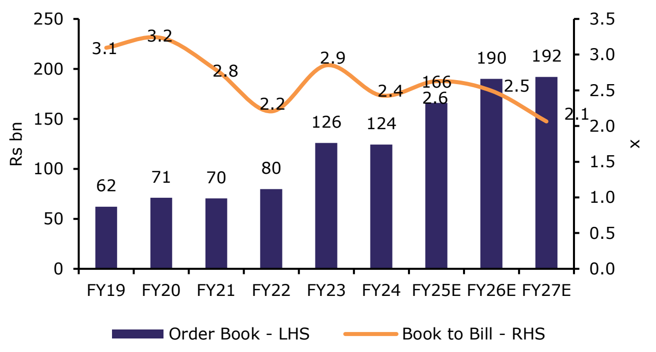
Source: Company, Emkay Research

Exhibit 4: … healthy return ratios, on nimble capital allocation



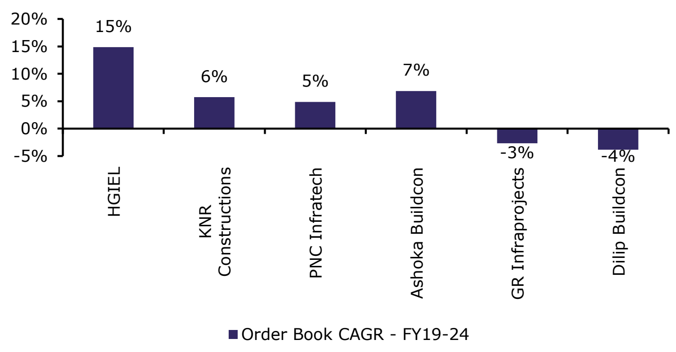
Source: Company, Emkay Research

Exhibit 5: HGIEL's book-to-bill is expected to remain at >2x



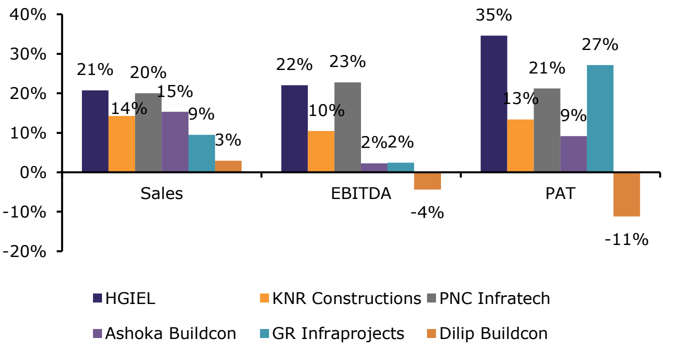
Source: Company, Emkay Research

Exhibit 6: Company has the highest order book CAGR among peers



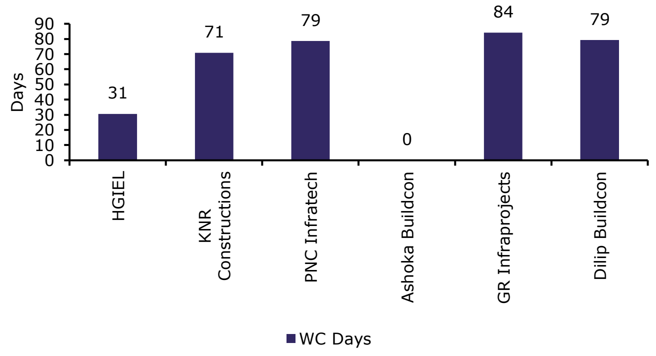
Source: Company, Emkay Research

Exhibit 7: HGIEL's earnings CAGR over FY19-24, among top quartile in the industry



Source: Company, Emkay Research

Exhibit 8: Superior working capital cycle among peers, underscores operating efficiencies at play for HGIEL



Source: Company, Emkay Research

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We re-initiate coverage on HGIEL with a BUY

We estimate H.G Infra Engineering Ltd's (HGIEL or HG) standalone revenue/EBITDA/APAT CAGR at 22%/20%/21% during FY24-FY27E, on the back of strong order inflows over FY25-27E in the roads segment supported by pickup in awarding activities and a clearer direction under the GoI's new *Vision India@2047*. HGIEL's eligibility and pre-qualification (PQ) have improved in both, EPC and HAM projects, thus enabling it to bid for majority of the large road projects; its foray into the railways, water, and solar segments grants it a steady medium-to-longer term earnings visibility. We expect HGIEL to clock 19-20% RoE during the forecast period; RoCE is expected at 23-24%, on the back of the company's resilient EBITDA margin profile of 15-16% through continued optimization in procurement practices, operating efficiencies, etc.

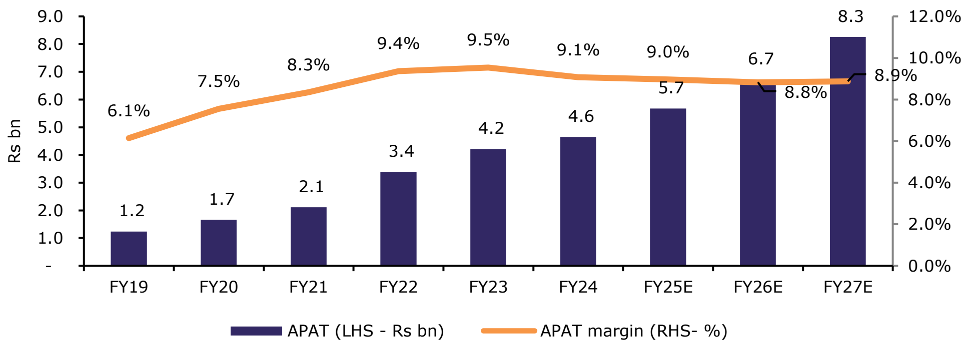
Exhibit 9: HGIEL's growth journey and outlook for FY25-27

Standalone	FY08-12	FY13-17	FY18-21	FY22-24	FY25-27E
Nature	*Sub-contractor*	*Upcoming prime contractor (NHAI orders)*	*Pan India presence*	*Diversification into rail & solar*	*Diversification into water etc.*
Presence in States (no.)	2	6	8	12	15+
Period End O/S Orderbook (Rsbn)	2	40	70	124	192
Period End Annual Revenue (Rsbn)	2.9	10.6	25.3	51.2	93.0
Period End Annual EBITDAM	13.8%	11.8%	16.2%	16.0%	15.2%
Period End Annual RPAT (Rsmn)	132	534	2,110	5,455	8,255
Period End Gross Block (Rsbn)	1.2	2.3	7.6	12.5	18.8
Period End Debt Equity (x)	1.8	1.2	0.3	0.2	0.1
RoE	-	30%	20%	20%	19%
RoCE	-	24%	23%	24%	24%
Single Project Size (Rsmn)	500	3,000	15,000	50,000	-

Source: Company, Emkay Research; Note: Period end implies for the terminal year of that period

Despite the company's higher exposure to the railways and, potentially, the water segments (which traditionally have a lower EBITDA margin profile), management guidance has implied only a minor dilution in EBITDA margins going ahead.

Exhibit 10: PAT CAGR of 20%+ over FY24-27E on the back of stable EBITDA margin



Source: Company, Emkay Research

Exhibit 11: Peer comparison

(Rs bn)	KNR Construction		PNC Infratech		Ashoka Buildcon		GR Infraprojects		HGIEL	
	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25E	FY26E
Market Capitalization	104.3	104.3	135.1	135.1	66.4	66.4	173.1	173.1	110.8	110.8
Less: Non-Current Investments	6.6	6.6	16.6	16.6	14.8	14.8	25.9	25.9	6.3	6.3
Implied SA Market Capitalization	97.7	97.7	118.5	118.5	51.6	51.6	147.2	147.2	104.5	104.5
SA PAT	4.4	4.9	9.0	8.7	3.9	4.9	7.1	8.5	5.7	6.7
PER (x)	22.1	19.9	13.1	13.6	13.2	10.5	20.7	17.2	18.4	15.5
Average PER (x)									17.3	15.3
RoE	12.5%	12.6%	14.9%	13.9%	10.4%	11.8%	9.4%	10.4%	19.7%	19.1%
Average RoE									11.8%	12.2%

Source: Company, Bloomberg, Emkay Research; Note: we have assumed 1x equity investment in subs/JVs for all players; average is for KNR Construction, PNC Infratech, Ashoka Buildcon and GR Infraprojects

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HGIEL has registered a strong financial as well as operating growth performance, while maintaining a superior RoE vs. peers. The company has been logging RoE of >20% vs. the 10-15% range for peers. While peers trade at 11-20x PER on FY26E basis, we have assigned HGIEL a basic unadjusted Sep-26E target PER of ~15x, on the company's better return ratios, its strong execution capabilities, and its calibrated diversification efforts.

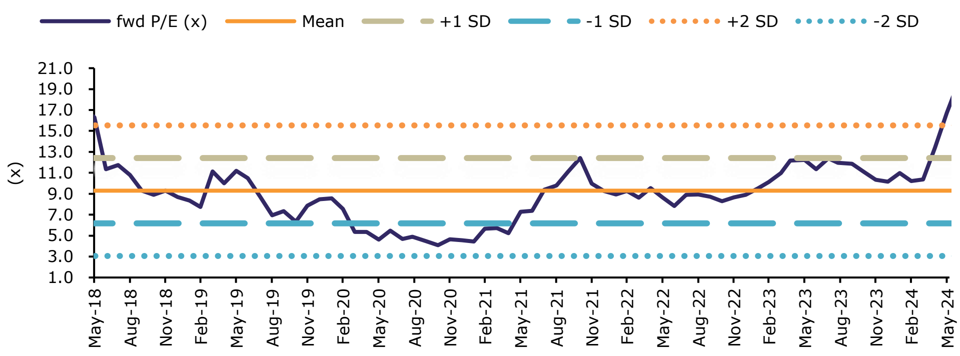
Exhibit 12: HGIEL's SoTP-based valuation

Valuation – SoTP method	Base	Share	Bull case	Bear case
Standalone EPC business				
EPS – Sep-26E (Rs)	115		115	115
P/E (x)	16.0		18.0	14.0
Value (Rs/share)	1,839	88%	2,069	1,609
Investment in HAM	15,653		15,653	15,653
P/B (x)	1.05	(blended)	1.20	0.80
Value (Rs/share)	228	11%	288	192
Solar	4,346		4,346	4,346
P/B (x)	0.50		0.70	0.30
Value (Rs/share)	33	2%	47	20
SoTP-based value (Rs/share)	**2,100**	**100%**	**2,404**	**1,821**
CMP (Rs/share)	1,701		1,701	1,701
Upside	*24%*		*41%*	*7%*

Source: Company, Emkay Research

We value HGIEL based on SOTP method, wherein its standalone EPC business stands at Rs1,839/sh (Sep-26E EPS: 16x), HAM projects at Rs228/sh (wherein equity investment till FY24 has been assigned 1.5x and investment in FY25-26E assigned 0.5x, 1.05x blended), and the solar business at Rs33/sh (Sep-25E incremental equity investment: 0.5x). We re-initiate coverage on HGIEL with a BUY recommendation and TP of Rs2,100/sh, implying ~25% upside to the CMP.

Exhibit 13: HGIEL – One-year forward P/E band



Source: Company, Bloomberg, Emkay Research

Exhibit 14: GR Infraprojects – One-year forward PER band

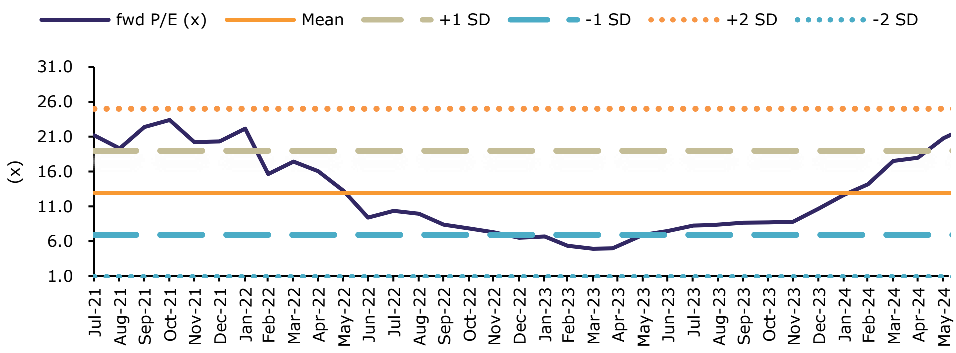


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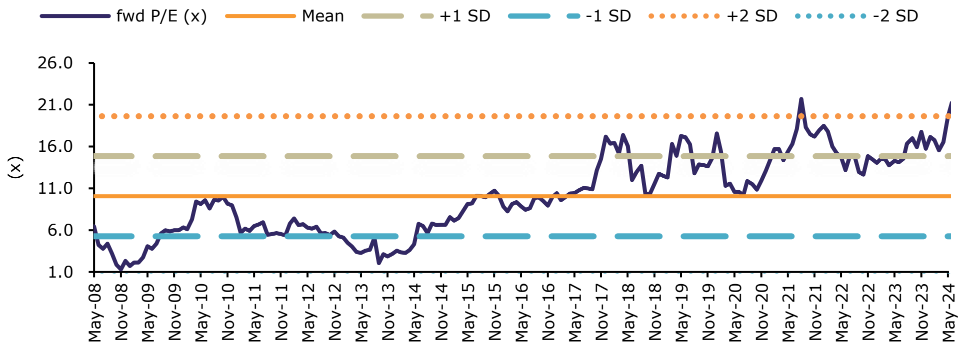
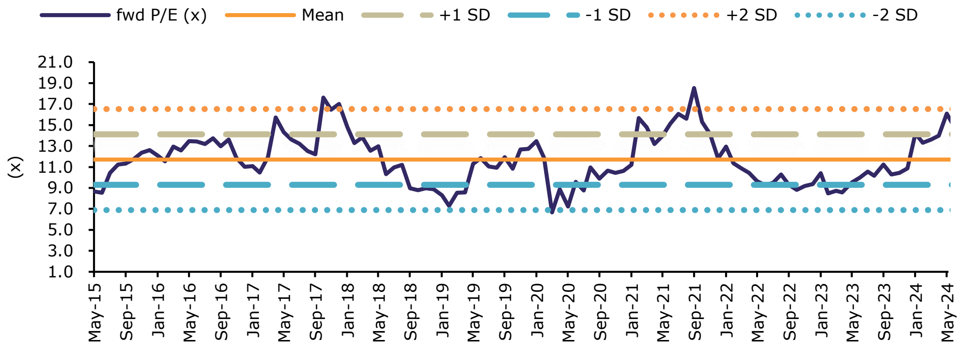
Exhibit 15: KNR Constructions – One-year forward PER band



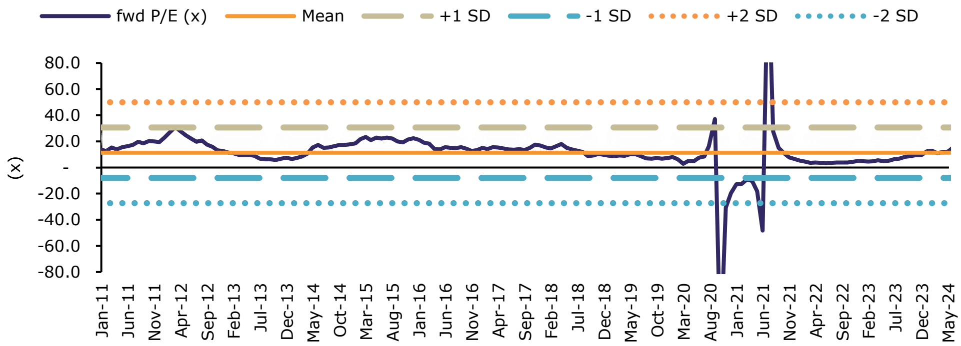
Source: Bloomberg, Emkay Research

Exhibit 16: PNC Infratech – One-year forward PER band



Source: Bloomberg, Emkay Research

Exhibit 17: Ashoka Buildcon – One-year forward PER band



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Key Investment Thesis

Roads – Pickup in order inflow expected ahead

HGIEL's Roads order-book (OB) comprises a healthy mix of HAM and EPC projects, with an outstanding OB of Rs84.8bn as on 31-Mar-2024; of these projects, the Varansi-Ranchi-Kolkata Highway, Chennai-Tirupati Package II, Ganga Expressway, and the Kalimandir Dimma Chowk Elevated Corridor are key ones. The company, in May-24, has already secured two EPC contracts worth Rs42bn for the Nagpur-Chandrapur highway from the MSRDC. State projects are rare compared with central projects, and we believe continual order wins from states should further enhance the company's standing.

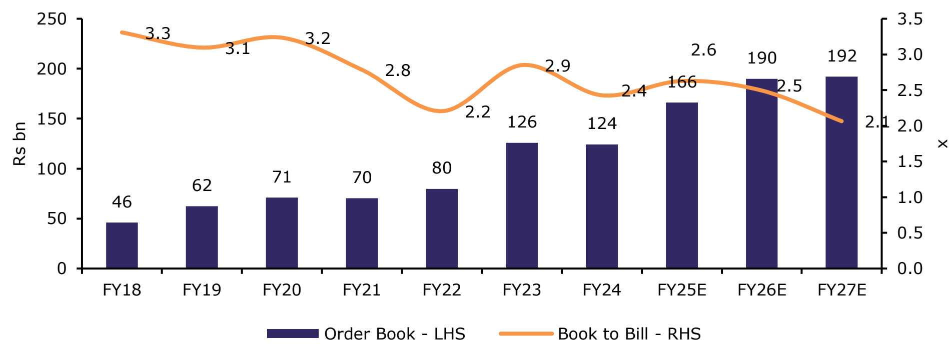
Exhibit 18: Road projects – Order book as of FY24-end

Project	Type	Sector	Authority	Completion	Order Book (Rs mn)
Karnal Munak Road	HAM	Govt	NHAI	23.9%	6,684
Varanasi Ranchi Kolkata Highway P 10	HAM	Govt	NHAI	1.1%	10,974
Varanasi-Ranchi-Kolkata Highway P 13	HAM	Govt	NHAI	2.7%	7,688
Raipur-Visakhapatnam OD5	HAM	Govt	NHAI	65.9%	4,538
Raipur-Visakhapatnam OD6	HAM	Govt	NHAI	73.7%	2,633
Khammam-Devarapalle P1	HAM	Govt	NHAI	50.0%	3,393
Khammam-Devarapalle P2	HAM	Govt	NHAI	53.7%	2,616
Raipur-Visakhapatnam AP P1	HAM	Govt	NHAI	69.5%	2,638
Rewari Bypass Pkg-4	HAM	Govt	NHAI	83.9%	799
Chennai-Tirupati Package-II	HAM	Govt	NHAI	0.0%	7,700
Kalimandir Dimma Chowk Elevated Corridor	EPC	Govt	NHAI	0.0%	6,101
Neelmangala-Tumkur	EPC	Govt	NHAI	28.0%	6,443
UER P1	EPC	Govt	NHAI	93.1%	965
Ganga Expressway	EPC	Pvt	Adani	54.3%	20,814
Others					864
Total					**84,850**

Source: Company, Emkay Research

HGEIL maintained average book-to-bill at 2.8x during FY18-24; we estimate 2-2.5x average book-to-bill during FY25-28E, led by uptick in order inflows during FY25-26E and sustained execution levels.

Exhibit 19: HGIEL's book-to-bill expected to remain at >2x till FY27E



Source: Company, Emkay Research

Road development, always a priority for the GoI

Road infrastructure development has remained a priority for the GoI and has been going strong since the last decade, with NHAI being the key implementation agency. The overall road infrastructure in India has logged 3.5% CAGR over 2014-23 to 6.7mn km, with National Highways (NHs) CAGR at 5.2% over the same period. The pace of NH construction has accelerated, especially from FY17.

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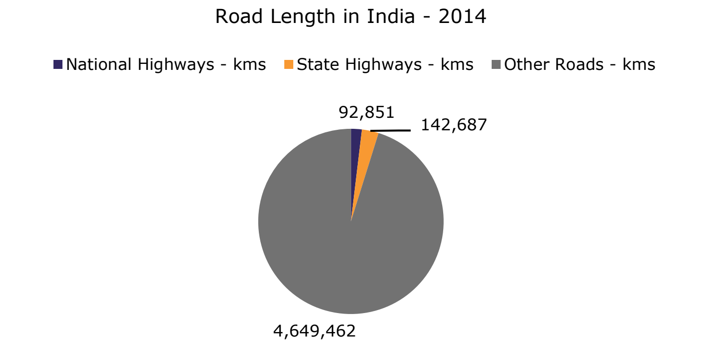
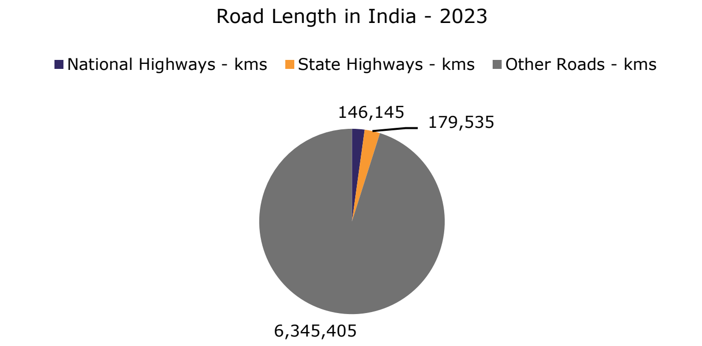
Exhibit 20: Road length in India in 2014



Source: MoRTH Annual Report – FY13-14, Emkay Research

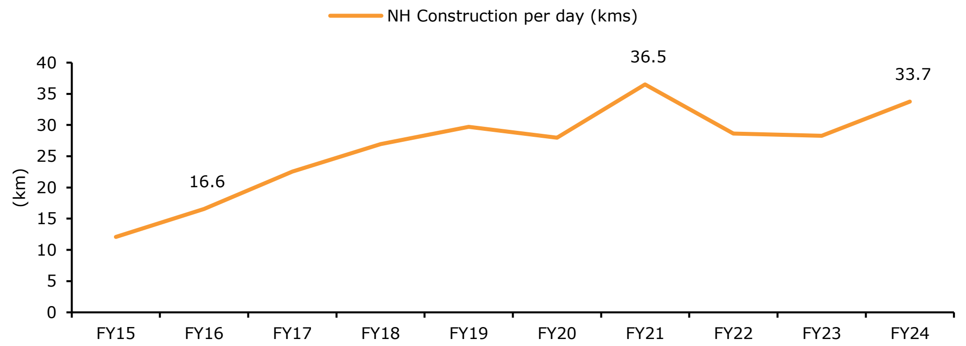
Exhibit 21: Road length in India in 2023



Source: Press Information Bureau (PIB), Emkay Research

We perceive the strong construction trends to sustain over the medium term, aided by GoI focus on infrastructure creation. In FY24, India constructed 33.7km of NHs daily vs. target of 37.7km. The GoI targets 35-36km of NH construction daily.

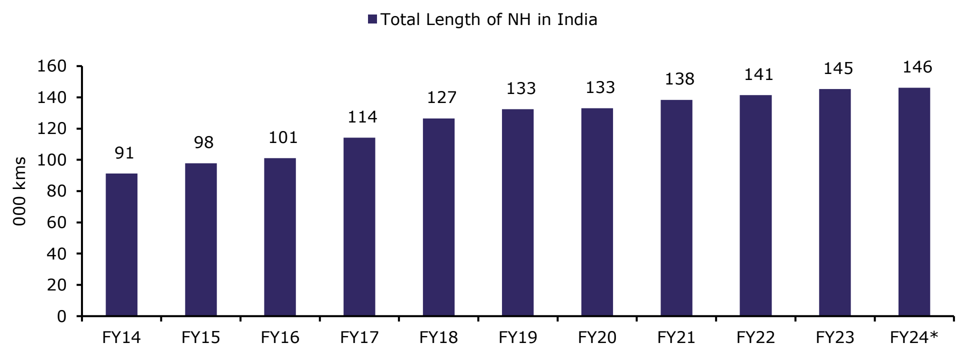
Exhibit 22: Healthy NH construction trends



Source: PIB, Media Reports, Emkay Research

The total length of NHs has steadily grown over the last decade in India, from ~90,000 (90k) km to >145k km.

Exhibit 23: NH length in India is nearing 150k km



*Source: PIB, Emkay Research; * till Nov-23*

The incremental NH network in India is focused on highways with two lanes and above, given the evident accelerated growth in this category during 2014-23. This also reflects in the share of the lane augmentation kms out of the annual NH construction in India. We believe this trend would sustain over the next decade.

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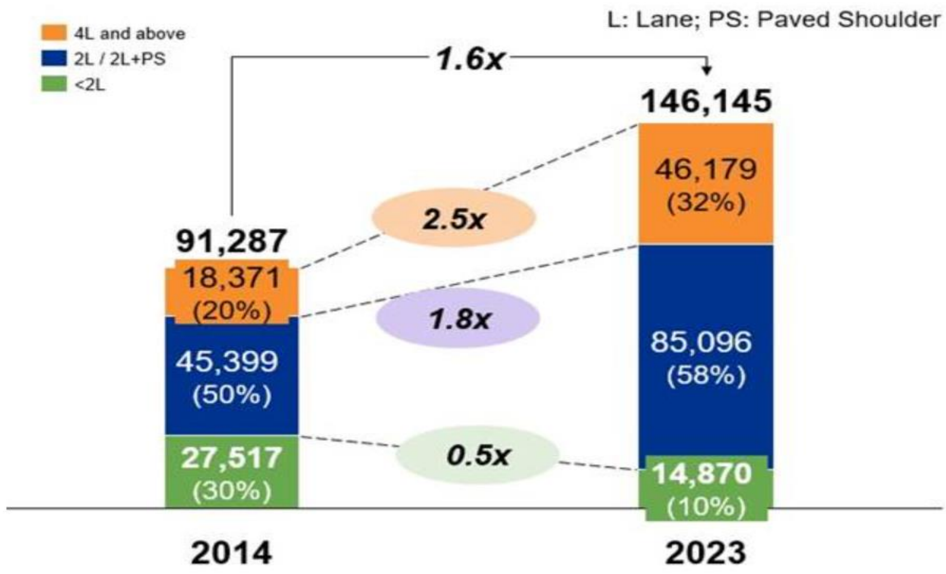
Exhibit 24: Upgradation of NH network through lane augmentation



Source: PIB; Note: NH network in km

Exhibit 25: Lane augmentation constitutes over 75% NH construction in India

(km)	NH construction	Lane augmentation	Strengthening, etc
FY15	4,410	3,761	649
FY16	6,061	5,259	802
FY17	8,231	6,882	1,349
FY18	9,829	7,383	2,446
FY19	10,855	9,136	1,719
FY20	10,237	9,375	862
FY21	13,327	8,420	4,907
FY22	10,457	7,667	2,790
FY23	10,331	8,179	2,152
FY24	12,349	9,642	2,707

Source: MoRTH, Lok Sabha website, Emkay Research

India has witnessed robust NH construction during FY24, at 12.3k km – the second highest annual run-rate clocked after a robust FY21 run-rate boosted by the onset of Covid-19. The GoI has set the NH construction target of >13k km for FY25, implying daily run-rate of >35km. Notably, NHAI's share in MoRTH's total annual construction has risen, from ~30% during FY18-19 to >50% in FY24.

Exhibit 26: NHAI's sizable presence in NH construction

(km)	NH construction	Target	Variance	NHAI construction	NHAI share
FY15	4,410	4,500	-2%	1,510	34%
FY16	6,061	6,000	1%	1,937	32%
FY17	8,231	8,000	3%	2,588	31%
FY18	9,829	10,000	-2%	2,993	30%
FY19	10,855	12,000	-10%	3,264	30%
FY20	10,237	12,000	-15%	3,979	39%
FY21	13,327	12,000	11%	4,218	32%
FY22	10,457	12,000	-13%	4,331	41%
FY23	10,331	12,200	-15%	5,544	54%
FY24	12,349	13,800	-11%	6,644	54%
FY25		13,000+			

Source: MoRTH, NHAI, Media Reports, Emkay Research

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Awarding slowed down in FY24 in the run up to elections, but is expected to pick up going ahead

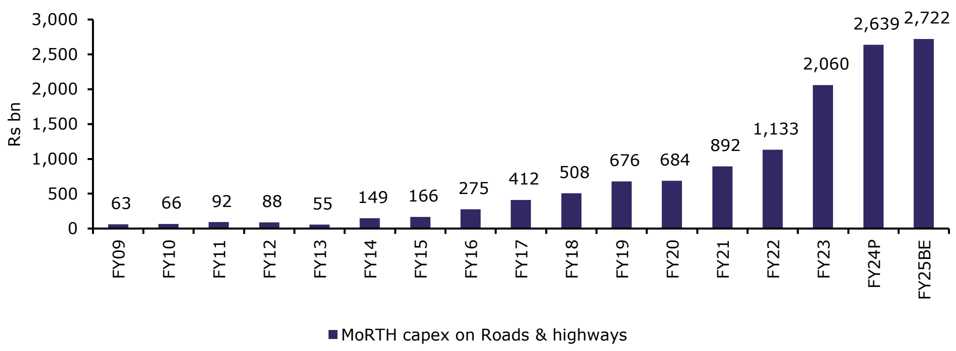
Notably, awarding by MoRTH (including NHAI) during FY21-23 saw a sizable uptick, with annual average awarding at >11k km. FY24, however, saw a slowdown in the pace of awarding, in the run up to the national elections (coupled with some state elections too), the financial embargo on the NHAI, change of awarding focus towards BOT, and significant cost overruns in flagship programs. We, however, expect awarding activities to pick up in the next few months, and announcement of the nuances of highway network development under the GoI's *Vision India@2047* could lead to a spurt in awarding ahead.

Exhibit 27: Annual awarding trends for MoRTH as well as for the NHAI

	MoRTH (incl. NHAI)		NHAI	
(km)	Awarded	Target	Awarded	Target
FY13	1,933	9,500	1,116	5,000
FY14	3,620	9,000	1,435	5,000
FY15	7,974	10,000	3,103	3,900
FY16	10,098	10,000	4,658	5,300
FY17	15,948	25,000	4,366	15,000
FY18	17,055	25,000	7,396	10,000
FY19	5,493	15,000	2,228	6,000
FY20	8,948	NA	3,211	6,000
FY21	10,964	NA	4,898	4,500
FY22	12,731	12,000	6,306	5,500
FY23	10,993	14,300	6,003	6,500
FY24	8,551	13,290	2,500	6,000

Source: Industry, Emkay Research

Exhibit 28: Annual capital expenditure trends for MoRTH

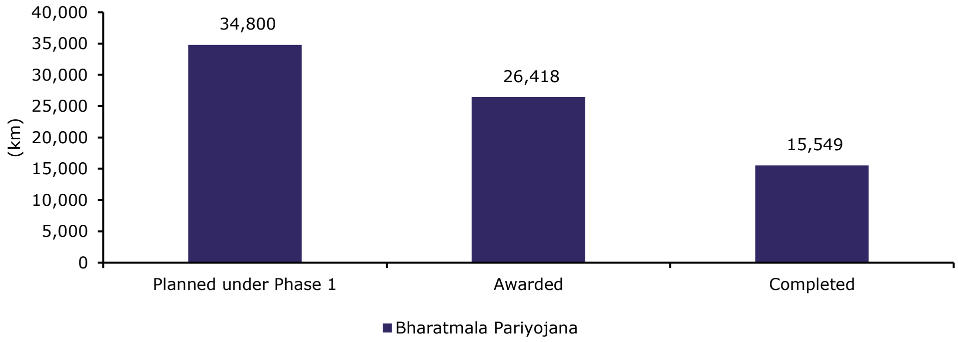


Source: Industry, Emkay Research; Note: P = Projected; BE = Budget estimates

Bharatmala Pariyojana (Phase 1) – The story so far

The GoI had planned an outlay of Rs5.4trn towards construction of 34,800km of NH in India under Phase 1 of the *Bharatmala Pariyojana* project. Of this, projects of 26,418km have been awarded till the end of Dec-23, with total actual expenditure of Rs4.2trn.

Exhibit 29: Over 75% of the projects have already been awarded under the *Bharatmala Pariyojana* (Phase 1)



Source: PIB, Emkay Research; till Dec-23

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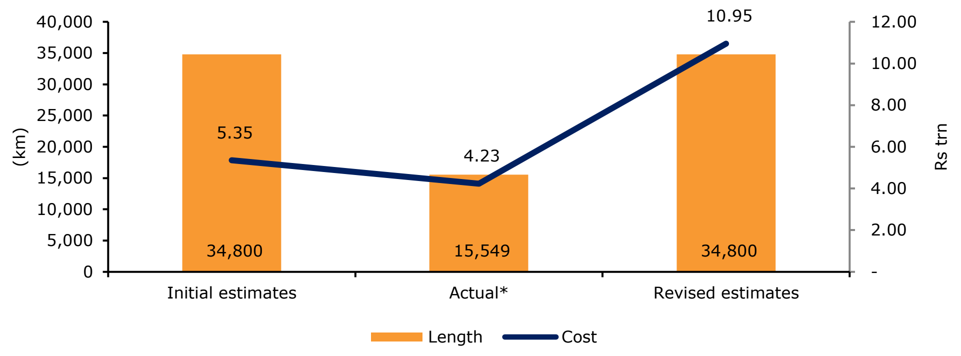
Exhibit 30: *Bharatmala* project cost estimates have been revised up, by >2x



*Source: Industry, Emkay Research; * actual cost upto Dec-23*

Exhibit 31: Historical trend of expenditure incurred under *Bharatmala* Phase-1

(Rs bn)	CRF Cess	Toll Remittances	TOT Remittances	Total (GBS)	IEBR Raised	Total Budgetary	Pvt. Sector Investment	Grand Total
FY15	96	54	-	150	33	184	192	376
FY16	210	65	-	275	233	508	298	806
FY17	74	75	-	149	331	480	160	641
FY18	154	85	-	239	505	744	165	909
FY19	166	96	97	358	612	970	206	1,177
FY20	157	106	50	313	750	1,063	219	1,282
FY21	272	115	73	460	650	1,110	125	1,235
FY22	362	127	50	539	652	1,190	192	1,382
FY23*	952	139	-	1,091	8	1,099	163	1,262

*Source: MoRTH, Emkay Research; * till the end of Dec-22*

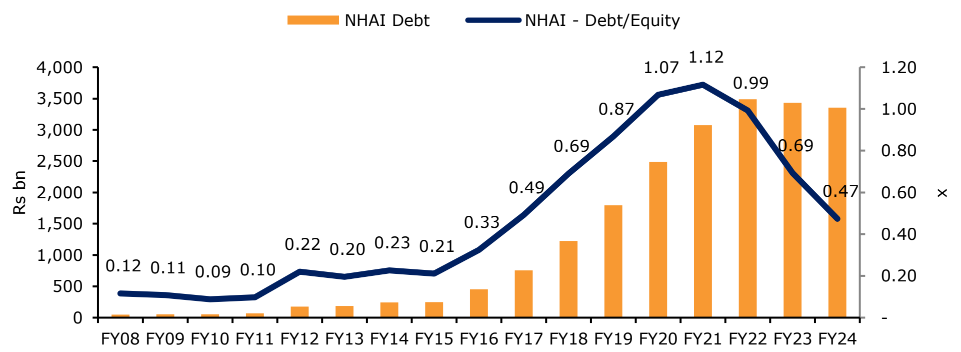
Bharatmala project's cost estimates have been revised upwards, by >2x, due to rise in input costs as well as in land acquisition-related expenses; majority of the outgo was towards EPC and HAM-based projects, which entail higher financial outlay for the NHAI as well as for MoRTH compared with the BOT (Toll) model. This has resulted in the NHAI being caught in a worsening debt situation. The GoI has increased the budgetary allocation for NHAI to meet its obligations, but it has instructed the NHAI to refrain from incremental borrowings or extra budgetary resources from FY23 onwards.

Exhibit 32: Project status based on implementation mode

Corridor type	Awarded		Approved; yet to be awarded		Total	
	Length	Total Capital Cost	Length	Total Capital cost	Length	Total Capital cost
	km	Rs bn	km	Rs bn	km	Rs bn
EPC	13,991	3,552	326	114	14,317	3,667
HAM	10,361	3,868	628	176	10,989	4,044
BOT (Toll)	408	107	0	-	408	107
Grand Total	**24,760**	**7,528**	**954**	**290**	**25,713**	**7,818**

Source: MoRTH, Emkay Research; updated till the end of Dec-22

Exhibit 33: NHAI's debt levels remain elevated at >Rs3trn as of end Mar-24



Source: NHAI, Capitaline, Emkay Research

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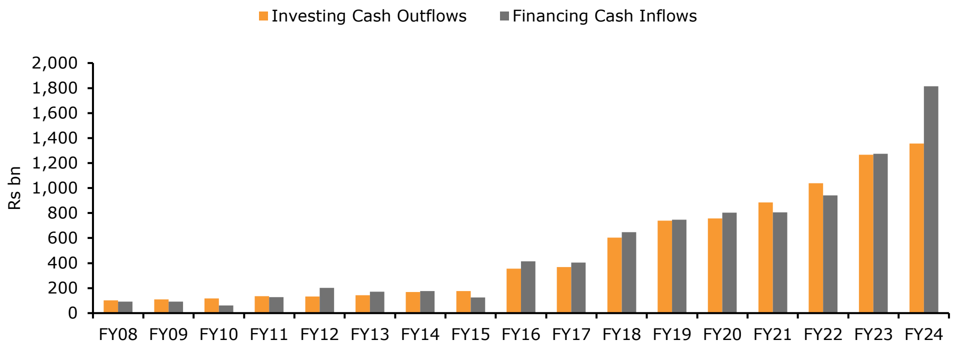
Exhibit 34: NHAI's investments have budgetary support from the GoI



Source: NHAI, Capitaline, Emkay Research

The GoI is reportedly working on a 5-year plan to reduce the debt of NHAI through prepayment of bonds/old debt, swapping high-cost debt with lower interest-bearing loans, and utilizing InvITs to pare mounting debt. The estimated annual repayments could range between Rs500-750bn, thereby resulting in the NHAI turning debt-free in 5 years, from being under ~Rs3.4trn debt currently.

Exhibit 35: NHAI's expected debt repayment schedule

Source: Media Reports (Financial Express); Note: 1 crore = 10 million

The GoI's new *Vision India@2047* with Rs20trn outlay would subsume existing schemes like *Bharatmala* and build high-speed corridors of ~50k km (currently ~3.9k km). Another 25k km of highways has also been planned under this scheme, besides awarding BOT projects in the interim in FY25.

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As aforementioned, the GoI has directed the NHAI to focus on awarding of BOT projects in FY25, with 15 such projects (900km) likely to be offered by the NHAI at a cost of Rs440bn, besides a 3-5 year plan offering ~5.2k km under the BOT mode at a cost of Rs2.2trn. GoI officials indicate that the BOT model has seen renewed interest from contractors after the recent amendments (construction support, longer tolling periods, compensation for *force majeure*, etc) in the model concession agreement. The intent is to solicit higher private-sector participation in highway network development in India.

Exhibit 36: NHAI's BOT projects – Award plan for FY25

State	Project name	Total project cost (Rs bn)	Project length (km)
Assam	Guwahati Ring Road, including Brahmaputra Bridge	55	65
Jammu & Kashmir	Chennai – Nashri Tunnel	19	9
Madhya Pradesh	Agra Gwalior Greenfield	37	88
Maharashtra	Karmala – Tembhurni	10	60
Maharashtra	Sangli – Kolhapur	7	34
Maharashtra	Kasarwadi (Nashik Phata) – Rajgurunagar	60	30
Maharashtra	Ahmednagar Solapur section of Surat Chennai expressway (Pkg 1)	23	62
Maharashtra	Ahmednagar Solapur section of Surat Chennai expressway (Pkg 2)	20	66
Maharashtra	Ahmednagar Solapur section of Surat Chennai expressway (Pkg 3)	22	71
Maharashtra	Ahmednagar Solapur section of Surat Chennai expressway (Pkg 4)	16	56
Maharashtra	Pune – Shirur	62	56
Maharashtra	TaIegaon – Chakan-Shikarapur	42	54
Tamil Nadu	4L of Balance length in Chennai – Tirupathi section & 6 laning Tirupathi bypass	25	83
Telangana	Armoor – Mancherial	32	131
Uttar Pradesh	4 lane of Aligarh - Palwal – Tappal section of NH-334(D) i/c bypass	15	72

Source: NHAI

The management has indicated a clear intent to avoid bidding directly for BOT projects; however, it would explore EPC sub-contracting opportunities for such contracts. The company has worked with reputed contractors like Adani and IRB, to capture the sub-contracting opportunity. HGIEL's EBITDA margin ranges at 15-16% in pure EPC, 17-18% in HAM, and 12-13% for Adani, IRB, etc. contracts, though the management has indicated that margins would stay steady even if it starts participating as a contractor for BOT clients.

HGIEL has guided to Rs80bn of road order inflow in FY25 of which >Rs40bn from the MSRDC has already been won; the company expects the NHAI to cover the rest. Going ahead too, the company targets increasing the order book (and maintaining its book-to-bill). The percentage share of roads may reduce, but should increase in absolute terms. Notably, HGIEL is strong in states like Maharashtra, Andhra Pradesh, Odisha, Jharkhand, and Uttar Pradesh and, given the recent MSRDC wins, there is opportunity to win other state projects as well.

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Railways – Further inroads to a diversification opportunity

HGIEL's existing railway portfolio comprises of six projects, from line and associated works to station upgrades and metro lines & stations. The existing order book stands at Rs26.5bn, of which Rs16bn was won in FY24, thus extending HGIEL's inroads to the broader railway sector. HGIEL has a balanced footprint, capable of securing future growth drivers in the space. The company aims to achieve order inflow of ~Rs20bn in FY25.

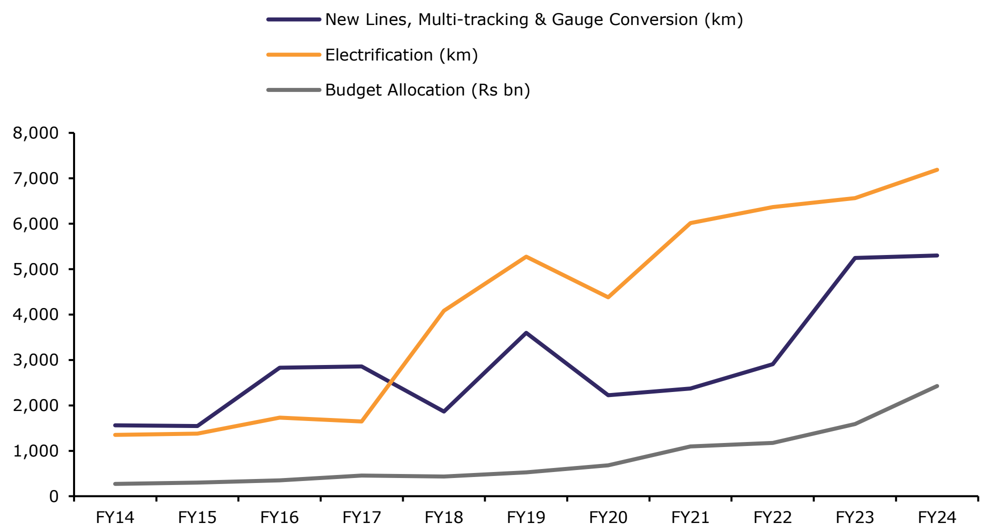
Exhibit 37: HGIEL's railway footprint

Project (Rs mn)	Type	Scope of work	Client	Bid Cost	Order Book	LoA/App. Dt	Timeline - Months	% Completion*
Janakpuri (W) to RK Ashram, Delhi	BOQ	Vikaspuri Ramp to Mangolpuri elevated section & stations construction	DMRC	4,121	1,762	23-Jan-23	30	49.6
Bilaspur, HP	BOQ	Bhanupali-Bilaspur-Beri railway line incl foundations, structures, earthwork etc	RVNL	4,661	3,556	24-May-23	30	10.3
Kanpur CR Station, UP	EPC	Upgradation & modernization under Amrit Bharat Scheme	North Central Railway	6,551	5,323	5-Jun-23	36	4.1
Dhule-Nardana, Maha	EPC	New broad gauge line incl earthwork, bridges, track laying & civil works	Central Railway	7,161	6,088	2-Feb-24	30	0.0
Karanjgaon-Aurangabad, Maha	EPC	Doubling of railway track between the stations incl electrification & signalling	South Central Railway	4,471	3,789	1-Mar-24	30	0.0
Gaya-Son Nagar, Bihar	EPC	Doubling of railway track incl earthwork, bridges, electrification etc	East Central Railway	7,091	6,009	12-Mar-24	36	0.0

*Source: Company, Emkay Research; * till Mar-24*

The outlook for railway opportunities is steady, with key parameters like lines works and electrification growing and budget allocation also increasing YoY. The new budget could grant further impetus, given that the interim budget outlay itself was Rs250-260bn. Multi-tracking of high speed corridors (seven of these imply ~11k km of tracks for total capex of Rs4.2trn in 10 years) and station remodelling (*Amrit Bharat* scheme) are key focus areas. The development of the high speed *Vande Bharat* (4.5k by 2047 vs under 100 currently) and *Amrit Bharat* trains (50 be introduced in FY25) would lead to development of high speed corridors and modernized stations.

Exhibit 38: Railways have seen steady expansion over the last decade



Source: CEIC, GoI, Emkay Research

The *Amrit Bharat* Station Scheme aims to redevelop, upgrade, and modernize 1,309 stations across the nation by 2030, with plans for 553 in 27 states already under progress at Rs190bn capex. The scheme targets improving passenger amenities, infrastructure and connectivity. HGIEL's core states like Maharashtra, Andhra Pradesh, Odisha, Jharkhand, Bihar, and Uttar Pradesh have 123, 72, 57, 57, 86, and >149 stations under this scheme respectively, and thus the company is in a good position to win more orders, given its entry into Kanpur under North Central Railway.

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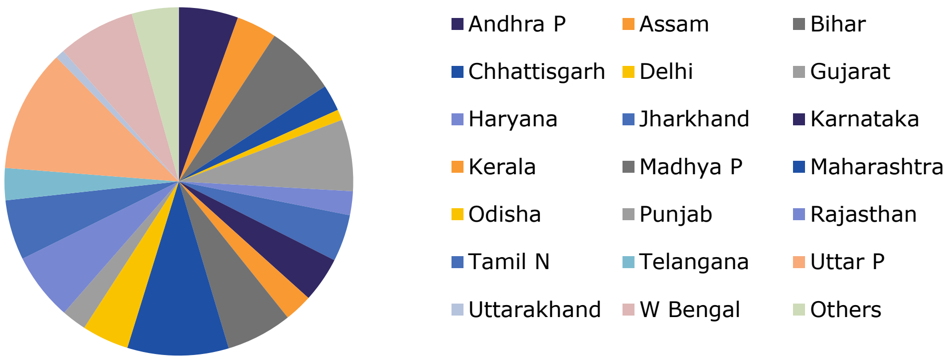
Exhibit 39: Over 1,300 *Amrit Bharat* stations planned by 2030



Source: GoI, Company, Emkay Research

The National Rail Plan 2030 aims at freight traffic share of 45% by 2030 vs 27% now, and Rs1.15trn would be invested in FY25, to complete 10,663km in 58 projects.

While Railways as a segment has a lower EPC EBITDA margin, at 10-12% vs 15-16% for Roads and 15-17% for Solar, the model is similar to NHAI's in terms of payments and working capital (30 days). Decision making has become faster and cash flows have been prioritized with timely payments. The Bilaspur, DMRC and RVNL projects have a similar status, with a fast payment schedule; Kanpur station under *Amrit Bharat* also pays within 10-15 days of billing. The management sees only a slight dip in margins due to diversification. DFCC could lower share of Roads in freight traffic, but can offer opportunities in Railways.

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Water – New foray

The Water sector is another area where HGIEL has strong focus backed by the *Jal Jeevan* Mission, *Namami Gange,* and *Jal Shakti Abhiyan, which are* key plans that target drinking water access to every household, conservation of the River Ganges and its tributaries, and rainwater harvesting, respectively. In the past, HGIEL has done water supply projects (pipelines) in Rajasthan on turnkey basis.

The Water Ministry's budget outlay has been growing YoY with the bulk of it targeted to be spent on the *Jal Jeevan* Mission, which aims to provide clean and adequate drinking water to individual household connections, both urban and rural (*Nal Se Jal*). As against the 193mn households, 142mn have been connected; hence, ~2/3rds of the households have seen progress (1/3rd still pending). HGIEL is aiming for projects related to water desalination, wastewater treatment, water sewerage, and water supply under this scheme. It is also looking at rainwater harvesting and storage under the *Jal Shakti Abhiyan*.

Exhibit 40: Jal Shakti Ministry and Krishi Sinchai allocations

(Rs bn)	Jal Shakti Ministry	Jal Jeevan Mission	Water Resources, River & Ganga	Ganga Plan	PMKSY
FY18 A	293	-	53	7	21
FY19 A	258	55	74	7	34
FY20 A	257	100	74	4	40
FY21 A	343	110	72	5	44
FY22 A	1,268	631	172	14	85
FY23 A	716	547	120	20	56
FY24 RE	965	700	195	24	70
FY25 BE	984	702	210	35	89

Source: Company, GoI, Emkay Research

The second phase of the *Namami Gange* project would have capex of Rs225bn, of which Rs112.8bn is allocated to new projects during 2023-26. The first phase was launched in Jun-14 with a budget of Rs200bn till FY21-end. Of the 457 projects, 280 have been completed at a cost of Rs384bn. HGIEL's participation would involve embankment clean-up, reduction of pollution, and infra development.

The company is also looking at the irrigation sector, with the *PM Krishi Sinchai Yojana* outlay seeing a significant increase, to Rs113.9bn. The scope of work in this scheme includes irrigation and water supply infra, conservation, and storage of water with aim to boost farm productivity.

In FY25, the company targets Rs5-10bn of order inflow from the water segment, with ~Rs500mn of revenue. It aims to increase the order book significantly, going ahead. HGIEL is looking at acquisitions in the desalination space, to provide technology knowhow and pre-qualification.

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Solar – Significant future potential

HGIEL has entered the solar sector as an integrated player (both EPC and O&M), with Rs16.8bn net outlay and an EPC net orderbook of Rs13.1bn ex-GST. It has two projects—of 15MW and 528MW—under the PM Kusum Scheme, Component C (Feeder Level Solarization), where it is the Renewable Energy Service Company (RESCO). It has contracts from Jodhpur Vidyut Vitran Nigam (JVVNL). The 528MW project contract is in partnership with Stockwell Solar Services Pvt Ltd. HGIEL (or its subsidiaries) has 65% stake in the EPC portion of the project, whereas it has 90% stake in the O&M portion. The projects are in the Jodhpur-Bikaner belt, with project completion target of one year (i.e. by mid-FY26) and O&M for 25 years. The company has guided to EPC margin of 15-17%, which we believe is achievable, given the Rs2-2.5mn/MW subsidy on modules and efficient sourcing of the same (under Rs40mn/MW module cost). The O&M part of the business at 75:25 debt:equity ratio can yield a levelized RoE of 16-17%, given that the blended solar tariff approved for the company is Rs3.27/kWh. Hence, akin to HAM projects, solar projects can also be monetized at 1.5x P/B.

Exhibit 41: Existing solar portfolio

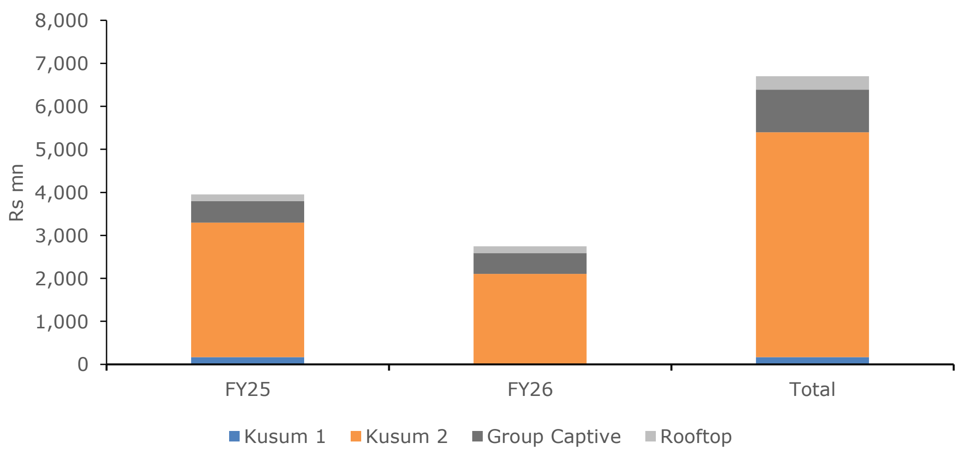
Rs mn	Kusum 1	Kusum 2
Capacity DC (MW)	15	528
Location	Bikaner	Jodhpur, Bikaner
Capex	660	23,250
Debt-75%	495	17,438
Equity	165	5,813
EPC value ex GST	550	19,260
EPC margin	15-17%	15-17%
Equity IRR	13-15%	13-15%
HGIEL stake	100%	90%/65% EPC

Source: Company, Emkay Research

Additionally, group captive and rooftop solar projects are two areas that the company is actively evaluating, owing to their higher IRRs (20-30%). The company is acquiring land for a 500MW solar park in Rajasthan too; registration is under way with Rajasthan Renewable Energy Corporation.

The company hopes to achieve better equity IRR in group captive, as installation costs would be lower, given that it is in the premises of the C&I customer; tariff realizations would also be higher (at Rs4-5/unit), while installation cost should be lower in rooftop. Notably, non-utility scale projects generally command better returns, as compared to utility scale projects.

Exhibit 42: HGIEL's potential equity infusion in the solar business in the near term



Source: Company, Emkay Research

HGIEL's equity infusion in *Kusum* schemes would be Rs5.4bn during FY25-26, with net value add at Rs2.2bn. We have not built any contribution from rooftop and group captive projects.

The solar landscape is expected to witness fast growth over the next 5-6 years, as the GoI targets 450GW of RE capacity by 2030 with over 60% coming from solar. 40GW from 57 large projects is targeted in the first phase. Target of the *Kusum* scheme itself is 34.8GW of solar power capacity by CY26, with central financial assistance of Rs344bn and with 10GW to be done in the first phase. HGIEL remains well-placed to capture such opportunities and can also move into adjacent areas like green hydrogen.

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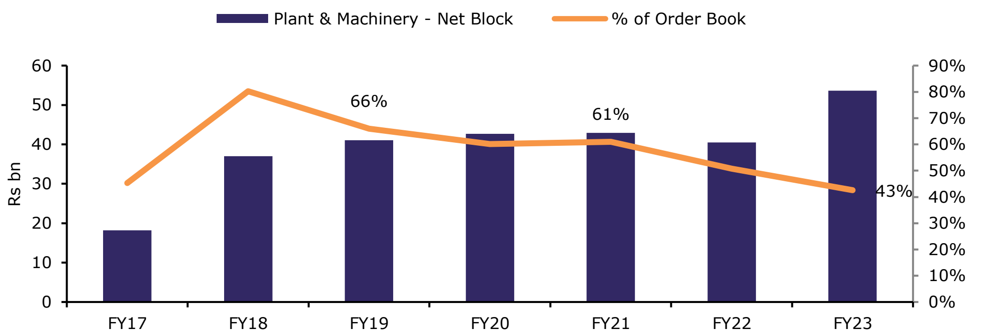
Support systems in place for the next leg of growth

Deft management of plant and machinery

Company has a dedicated department for identifying the need to procure or hire, deploy, maintain and monitor its plants, equipment, and accessories. It also has a mechanism in place for monitoring machinery deployed at specific sites through an activity log to track the capacity utilization, fuel consumption, idleness, cost effectiveness, and other operational details. This monitoring is done through a centralized system at its corporate office.

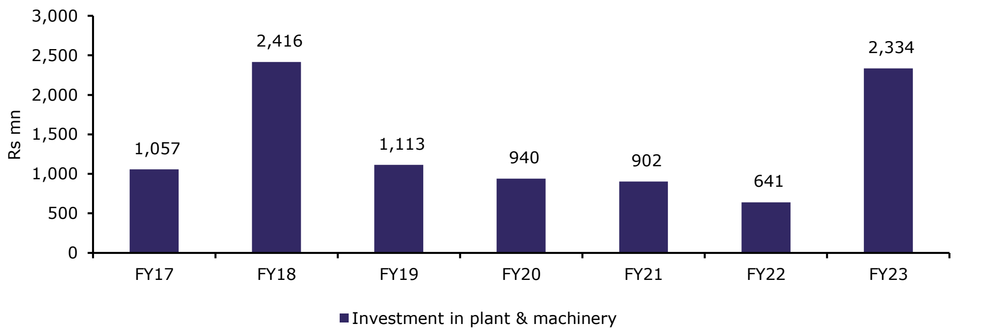
The management attributes its superior efficiency and profitability over peers to its decision of using own equipment and avoiding any rental alternatives. It intends to avert high rental costs, risks of renting wrong equipment, delays, and use restrictions by third-party equipment owners.

Exhibit 43: HGIEL aims to maintain net block of plant and machinery at >40% of its order book



Source: Company, Emkay Research

Exhibit 44: HGIEL's annual investment in plant and machinery

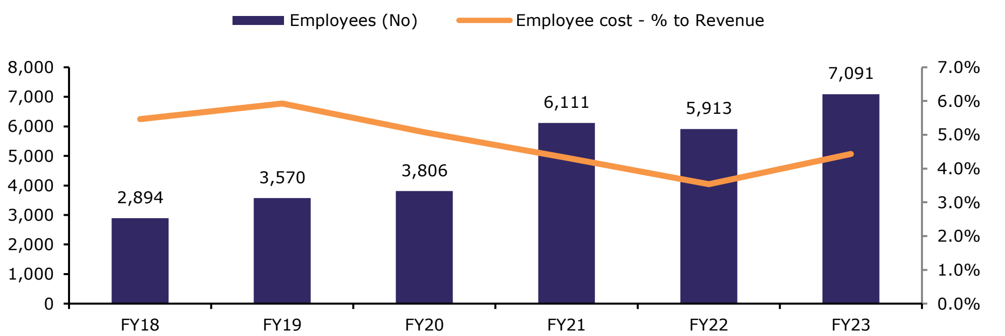


Source: Company, Emkay Research

Healthy employee base

The company has nearly doubled its employee base to >7k in FY23, from ~3.5k in FY19. We believe the company is well-placed for the next leg of growth, with key hires undertaken for newer verticals. It is also undertaking training programs for employees covering numerous aspects like road safety, compliances, quality management, cost control, human rights, etc.

Exhibit 45: Steadily growing employee base to support growth



Source: Company, Emkay Research; Note: includes temporary workers

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Digitalization at the forefront

- The company has invested in digitalization and CCTV coverage, making it possible to monitor construction across different sites.
- It has also undertaken digitalized and automated fuel dispensing stations to optimize on diesel consumption costs.
- It has set up standardized consumption per equipment, resulting in a deeper equipment understanding to enhance planning efforts.
- It has implemented the S4 SAP-ARIBA system for cloud-based procurement, being the first in this sector. This system is being used by many marquee companies.
- The company has a corresponding mobile app for its users.

Strategic procurement helps prop up margins

HGIEL is efficient in terms of supply chain management, including purchases of raw material. It attempts to pre-empt consumption patterns and minimize inventory as much as possible. It undertakes bulk procurement of diesel and bitumen. Pricing, urgency, and capacity are key factors behind procurement-related decision making. Raw material availability is paramount at the work site, and the company maintains a 4-month supply of aggregates at site before starting a project and uses mostly captive crushers. The contracts for highway projects mostly contain provision of price adjustment linked to WPI/other indices, for any increase in prices of steel, cement or other inputs (BOQ).

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Financials and Ratio Analysis

We estimate HGIEL to register ~21% adjusted standalone earnings CAGR over FY24-27E, mainly on the back of ~22% revenue CAGR propelled by robust annual order inflows of Rs90-110bn (excluding the solar segment). Consequently, HGIEL's order book could see >15% CAGR during FY24-27E, resulting in order book of Rs192bn as of FY27-end.

The company has consistently reported standalone EBITDA margin of >16% over FY21-24; but we have built in a 100bps gradual decline over FY25-27E, to account for margin volatilities, as HGIEL diversifies into new verticals (railway, solar, water, etc.).

Exhibit 46: Strong top-line and bottom-line growth trends

(Rs bn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (FY17-24)	CAGR (FY24-27E)
Revenue	10.6	13.9	20.1	22.0	25.3	36.2	44.2	51.2	63.2	76.2	93.0	25.3%	22.0%
Growth	48%	32%	44%	9%	15%	43%	22%	16%	23%	20%	22%		
EBITDA	1.2	2.1	3.0	3.4	4.1	5.8	7.1	8.2	10.1	12.0	14.1	31.0%	19.7%
Growth	59%	67%	46%	13%	20%	42%	21%	16%	23%	19%	17%		
EBITDA Margin	11.8%	14.9%	15.1%	15.6%	16.2%	16.2%	16.1%	16.0%	16.0%	15.8%	15.2%		
APAT	0.5	0.8	1.2	1.7	2.1	3.4	4.2	4.6	5.7	6.7	8.3	36.2%	21.1%
Growth	77%	58%	47%	34%	27%	61%	24%	10%	22%	19%	23%		
APAT Margin	5.1%	6.1%	6.1%	7.5%	8.3%	9.4%	9.5%	9.1%	9.0%	8.8%	8.9%		

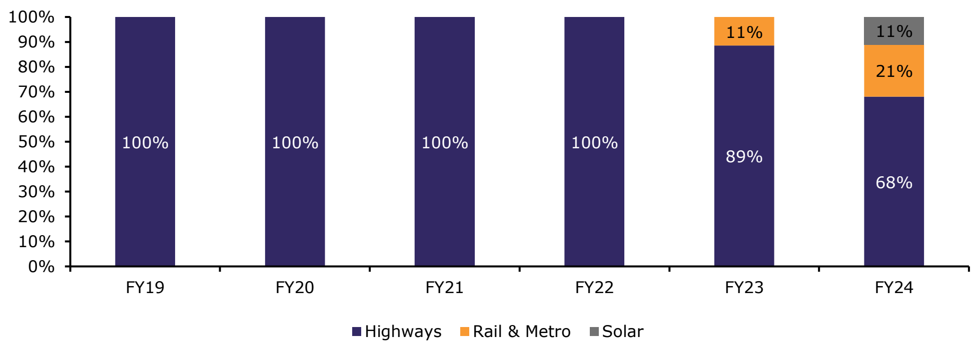
Source: Company, Emkay Research

Exhibit 47: Steady operating metrics on the back of consistent order inflows

(Rs bn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (FY19-24)	CAGR (FY24-27E)
Order Inflow	36	41	26	43	86	44	105	100	95		
Order Book*	62	71	70	80	126	124	166	190	192	14.9%	15.6%
Book-to-Bill (x)	3.1	3.2	2.8	2.2	2.9	2.4	2.6	2.5	2.1		
Execution (% to OB#)	48%	35%	36%	51%	55%	41%	51%	46%	49%		

*Source: Company, Emkay Research; * excluding the solar segment; # opening order book considered here*

Exhibit 48: HGIEL's order book is gradually diversifying beyond Road projects



Source: Company, Emkay Research

Exhibit 49: Consistent improvement in working capital cycle signifies that operating efficiencies are at play

(no. of)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Debtor days	55	80	95	119	106	68	65	64
Creditor days	31	61	73	95	88	54	61	73
Inventory days	41	52	46	45	42	36	36	43
Core Working Capital Cycle	**66**	**71**	**68**	**69**	**59**	**50**	**39**	**34**

Source: Company, Emkay Research

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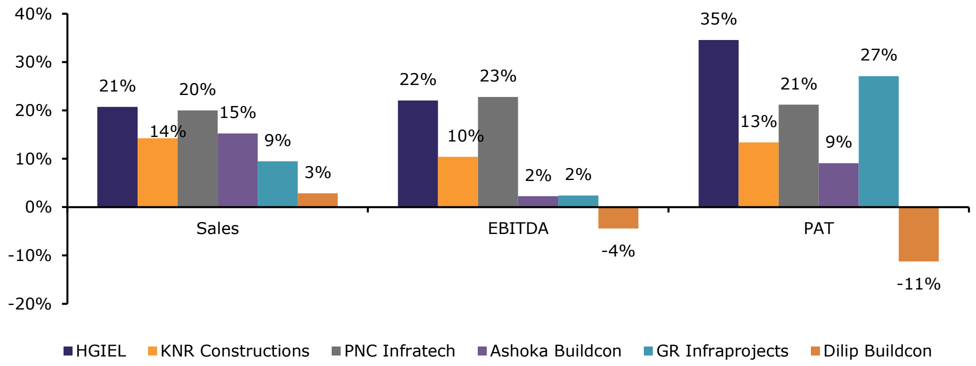
Exhibit 50: HGIEL's return ratios expected to stay steady in the forecast period, despite diversification

Ratio analysis	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
RoE	30%	16%	19%	20%	20%	25%	24%	20%	20%	19%	19%
RoCE	24%	16%	21%	21%	23%	30%	26%	24%	23%	23%	24%
Asset Turnover (x)	2.2	1.4	1.3	1.2	1.2	1.6	1.5	1.3	1.4	1.3	1.4
Debt/EBITDA (x)	1.6	1.9	1.3	1.1	0.7	0.5	0.7	0.6	0.7	0.7	0.4
Debt/Equity (x)	1.2	0.7	0.6	0.5	0.3	0.2	0.3	0.2	0.2	0.2	0.1
Interest Coverage (x)	5.2	3.8	4.6	5.1	5.5	9.5	9.7	8.4	8.2	7.5	9.9

Source: Company, Emkay Research

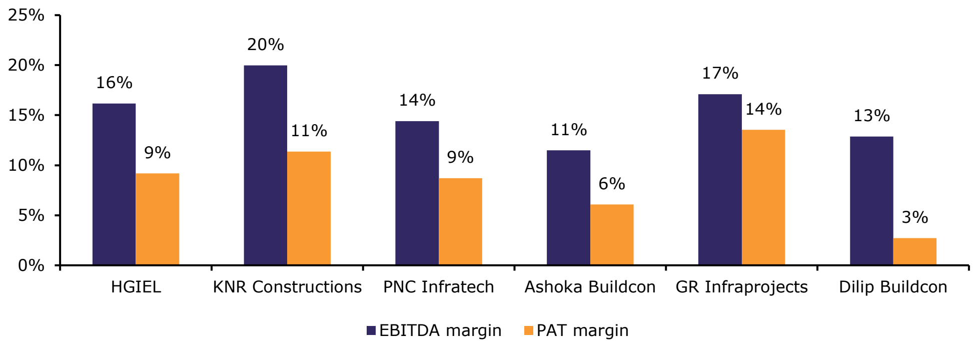
Peer Comparison

Exhibit 51: Revenue/EBITDA/PAT CAGR comparison over FY19-24



Source: Company, Emkay Research

Exhibit 52: Average EBITDA and PAT margin comparison (FY20-24)



Source: Company, Emkay Research

Exhibit 53: Order book CAGR (FY19-24)

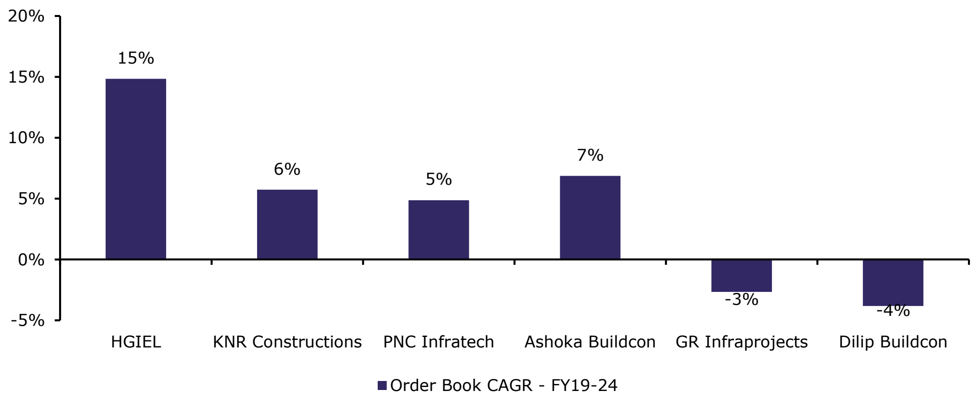


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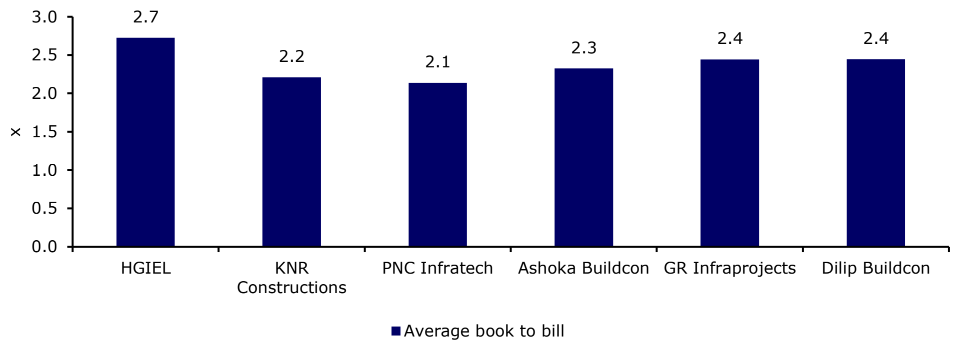
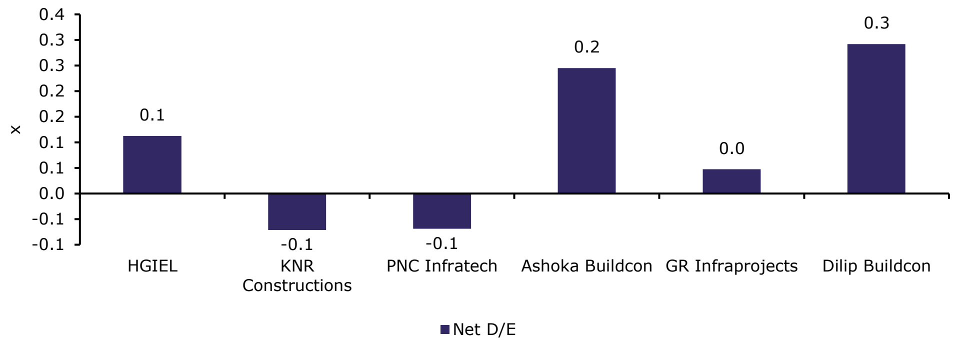
Exhibit 54: Average book-to-bill (FY20-24)



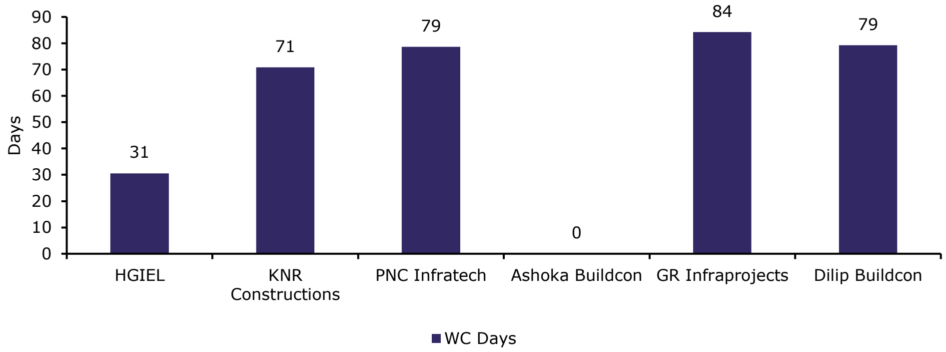
Source: Company, Emkay Research

Exhibit 55: Net debt-to-equity, as of FY24-end



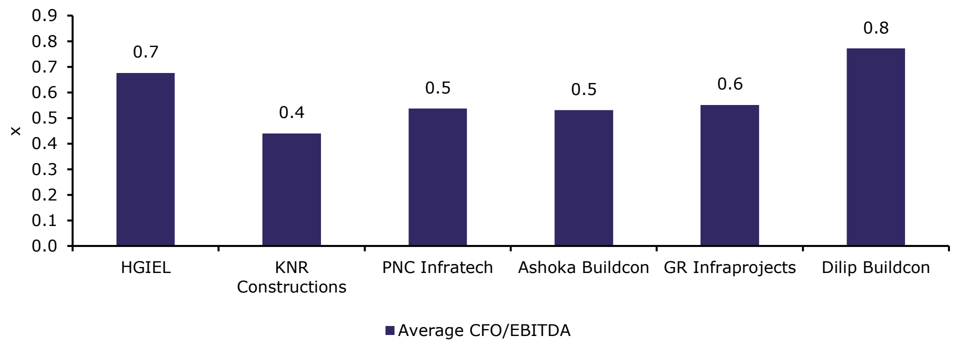
Source: Company, Emkay Research

Exhibit 56: Average working capital days (FY20-24)



Source: Company, Emkay Research

Exhibit 57: Average CFO/EBITDA (FY20-24)



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Company Information

Background

HGIEL is a Rajasthan-based (HQ in Jaipur) infrastructure development company with primary focus on the roads and allied sectors (including flyovers and bridges). The company undertakes business operations that include 1) providing EPC services on a fixed-sum turnkey basis, and 2) undertaking civil construction and related infrastructure projects on an item rate, lumpsum and developmental (HAM) basis. Apart from its focus on road projects, HGIEL has expanded its portfolio by venturing into railways/metro, water infrastructure, and solar projects. The promoter group holds 74.5% equity stake in the company.

HGIEL was established in 2003 as a private limited company. The company commenced its journey as a sub-contractor to renowned EPC payers in the country and bagged its first sub-contracting project in 2008, valued at Rs149mn, involving construction of an embankment. Over the years, HGIEL has executed multiple projects as a sub-contractor (including two water supply projects) and has eventually increased its capability to bid for larger projects independently, thereby reducing its reliance on sub-contracting. This strategic shift has propelled HGIEL to ascend the ranks and establish itself as one of the leading EPC players, boasting of an enviable portfolio of HAM projects.

Presently, HGIEL operates in 12 states, with ~63% of its order book concentrated in the northern and central regions. As of FY24, HGIEL's order book is a robust Rs124.3bn (book-to-bill: 2.4x), reflecting a diversified portfolio with EPC projects accounting for 28%, HAM projects for 40%, the railway segment for 21%, and solar projects for 11% of the total order book. Overall, the company received order inflows of ~Rs45bn during FY24 (including Rs22.4bn in Q4FY24). The company has reported robust revenue CAGR of ~21% over FY19-24, with consistent operating margins and PAT CAGR of ~35% over the same period.

Exhibit 58: Key Milestones

FY03-08	■ The company was incorporated in 2003 as a 'private limited company' ■ Executed first subcontract for construction of embankment: Rs149mn ■ Commenced construction of a portion of the Yamuna Expressway: Rs1bn
FY09-14	■ Commenced construction of the four-lane on the Jaipur-Tonk-Deoli section on NH-12: Rs2.5bn ■ Commenced construction of the four-lane of the Warora-Bamni section in Maharashtra: Rs2.6bn ■ Executed an Rs141mn order for a second coat on the Jaipur-Kishangarh Highway
FY15-18	■ Four-laning of NH-65 on the Kaithal-Rajasthan border: Rs4.0bn ■ HGIEL was awarded 7 construction projects in Maharashtra by MoRTH: Rs19bn ■ Entered HAM projects with the Gurgaon-Sohna Highway project: Rs6.1bn ■ The company went public on both, the BSE and the NSE, raising Rs3bn through its IPO in Mar-18
FY19-24	■ The company transitioned its traditional focus from the Roads sector to embracing new horizons in the Railways and Solar industries ■ HGIEL secured contracts for 17 highway projects (12 HAM and 5 EPC), along with 6 railway and metro projects ■ HGIEL was awarded a Rs49.7bn Ganga Expressway EPC project, spanning 151.7km, marking its largest project (EPC) in terms of value ■ ICRA assigned HGIEL a credit rating of AA- positive for its long-term credit facilities and A1+ for its short-term credit facilities ■ HGIEL was awarded Solar power projects in Rajasthan (KUSUM) by JDVVNL: Rs13.1bn

Source: Company, Emkay Research

HGIEL has a portfolio of 21 active projects, including 10 Road HAM projects. The cumulative equity requirement for these 10 HAM projects amounts to Rs14.61bn, of which, the company has already invested Rs6.94bn in FY24, with further infusions of Rs5.05bn planned in FY25 and Rs1.31bn each in FY26 and FY27. The total equity requirement for the solar project is estimated at Rs5.4bn, with Rs2.7bn earmarked for FY25 and the balance for FY26.

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Exhibit 59: Order book with geographical diversification

State/UT	FY19	FY20	FY21	FY22	FY23	FY24
Delhi	0%	0%	0%	15%	8%	2%
Rajasthan	37%	54%	38%	10%	1%	11%
Uttar Pradesh	19%	12%	10%	2%	35%	21%
Jharkhand	0%	0%	0%	0%	15%	20%
Andhra Pradesh	0%	0%	11%	10%	4%	8%
Maharashtra	11%	3%	3%	2%	1%	8%
Haryana	30%	18%	10%	2%	7%	6%
Odisha	0%	0%	0%	28%	11%	6%
Telangana	0%	13%	28%	20%	9%	5%
Others	3%	0%	0%	11%	9%	13%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company, Emkay Research

Exhibit 60: List of projects – Unexecuted order book of company as of FY24-end

Project name	Type	Sector	Authority	Completion	Order Book (Rs mn)
Highway					
Karnal Munak Road	HAM	Govt	NHAI	23.9%	6,684
Varanasi Ranchi Kolkata Highway P 10	HAM	Govt	NHAI	1.1%	10,974
Varanasi-Ranchi-Kolkata Highway P 13	HAM	Govt	NHAI	2.7%	7,688
Raipur-Visakhapatnam OD5	HAM	Govt	NHAI	65.9%	4,538
Raipur-Visakhapatnam OD6	HAM	Govt	NHAI	73.7%	2,633
Khammam-Devarapalle P1	HAM	Govt	NHAI	50.0%	3,393
Khammam-Devarapalle P2	HAM	Govt	NHAI	53.7%	2,616
Raipur-Visakhapatnam AP P1	HAM	Govt	NHAI	69.5%	2,638
Rewari Bypass Pkg-4	HAM	Govt	NHAI	83.9%	799
Chennai-Tirupati Package-II	HAM	Govt	NHAI	0.0%	7,700
Kalimandir Dimma Chowk Elevated Corridor	EPC	Govt	NHAI	0.0%	6,101
Neelmangala-Tumkur	EPC	Govt	NHAI	28.0%	6,443
UER P1	EPC	Govt	NHAI	93.1%	965
Ganga Expressway	EPC	Pvt	Adani	54.3%	20,814
Others					864
					84,850
Railway & Metro					
Bilaspur Himachal Pradesh	BOQ	Govt & PSU	RVNL	10.3%	3,556
Janakpuri West to R.K. Ashram Corridor	BOQ	Govt & PSU	DMRC	49.6%	1,762
Kanpur Central Railway	EPC	Govt & PSU	NCR	4.1%	5,323
Dhule-Nardana Railway	EPC	Govt & PSU	CR	0.0%	6,088
Karanjgaon_Aurangabad_RVNL_Pk9	EPC	Govt & PSU	SCR	0.0%	3,789
Gaya-Son Nagar section	EPC	Govt & PSU	ECR	0.0%	6,009
					26,527
Solar					
Solar Power Projects- Rajasthan (KUSUM)	EPC	Govt	JDVVNL	0.7%	12,983
Total Order Book					**124,360**

Source: Company, Emkay Research

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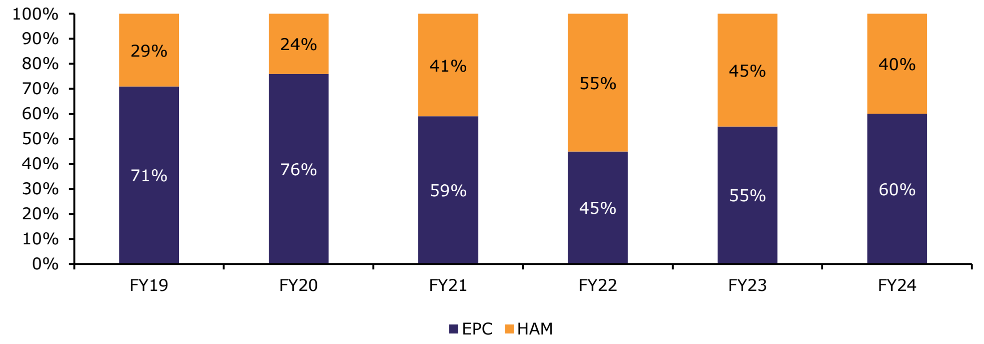
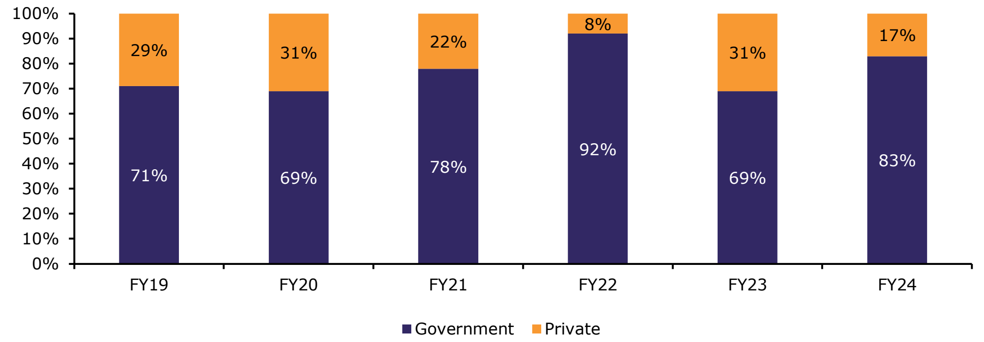
Exhibit 61: Proportion of HAM projects in the total order book has increased



Source: Company, Emkay Research

Exhibit 62: GoI contribution makes up majority of the total order book



Source: Company, Emkay Research

Exhibit 63: Segment-wise break-up of the order book

Particulars (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24
Highways - HAM	18,045	16,282	27,062	43,375	57,579	49,663
Highways - EPC	44,178	51,560	38,942	35,488	53,665	34,323
Highways - Others	-	3,185	4,396	866	1,757	864
Railway & Metro - EPC	-	-	-	-	14,662	21,209
Railway & Metro - BOQ	-	-	-	-		5,318
Solar - EPC	-	-	-	-	-	12,983
Total	**62,223**	**71,027**	**70,400**	**79,729**	**127,663**	**124,360**

Source: Company, Emkay Research

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Exhibit 64: Order inflow summary over the last 5 years

	Name of project	State	Client name	Cost (Rs mn)
FY25				
Road	Nagpur Chandrapur 04	Maharashtra	MSRDC	19,911
	Nagpur Chandrapur 05	Maharashtra	MSRDC	21,511
FY24				
Road	Kali Mandir Jamshedpur	Jharkhand	NHAI	6,101
	Chennai Tirupati P2 (HAM)	Andhra Pradesh	NHAI	7,600
Railway	Dhule Nardana	Maharashtra	IR	7,161
	Karanjgaon	Maharashtra	IR	4,471
	Gaya Son Nagar	Bihar	IR	7,091
Others	Kusum C Solar	Rajasthan	JDVVNL	13,070
Total				**45,494**
O/S Order Book				124,340
Orders Bid				1,105,070
FY23				
Road	Karnal Munak Road (HAM)	Haryana	NHAI	8,783
	Varanasi Ranchi Kolkata P10 (HAM)	Jharkhand	NHAI	11,096
	Varanasi Ranchi Kolkata P13 (HAM)	Jharkhand	NHAI	7,901
	Ganga Express - From Budan to Hardoi	UP	Adani	45,545
Railway	Janakpuri W to RK Ashram	Delhi	DMRC	3,496
	Bhanupali-Bilaspur-Beri New Railway Line	HP	RVNL	3,964
	Kanpur Central Railway Station	UP	IR	5,552
Others				-
Total				**86,338**
O/S Order Book				125,953
Orders Bid				1,078,725
FY22				
Road	Karala-Kanjhawala	Delhi	NHAI	12,438
	Kaliagura - Baunsaguar (HAM)	Odisha	NHAI	12,850
	Baunsaguar-Baraja (HAM)	Odisha	NHAI	9,550
	Neelmangala-Tumkur	Karnataka	NHAI	8,441
Railway				-
Others				-
Total				**43,279**
O/S Order Book				79,729
Orders Bid				NA
FY21				
Road	NH 365 BG Khamman-Devarapalle (HAM)	Telangana	NHAI	7,721
	NH 365 BG Khamman-Devarapalle (HAM)	Telangana	NHAI	6,371
	Aluru-Jakkuva (HAM)	AP	NHAI	10,601
Railway				-
Others	Transportation contract	Telangana	NTPC	950
Total				**25,643**
O/S Order Book				70,400
Orders Bid				NA
FY20				
Road	Delhi Vadodara Pkg-9	Delhi	NHAI	12,581
	Delhi Vadodara Pkg-9	Delhi	NHAI	8,801
	Mancherial-Repallewada	Telangana	Adani	9,508
	Rewari Bypass (HAM)	Haryana	NHAI	5,220
Railway				-
Others				4,607
Total				**40,717**
O/S Order Book				71,028
Orders Bid				NA

Source: Industry, Emkay Research

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Exhibit 65: Board & Management

Key personnel	Designation	Education	Experience	Prior Work Profile
Harendra Singh	Chairman and Managing Director	BE Civil Engineering - Jodhpur University	>30 years of experience in the construction industry	-
Vijendra Singh	Whole Time Director	Basic Education	>32 years of experience in the construction industry	-
Dinesh Kumar Goyal	Whole Time Director	PhD from the Birla Institute of Tech. & Science – Pilani; MSc from the London School of Economics; MSc (I) from IIT Delhi; is an Eisenhower Fellow	>40 years of experience spanning Finance, Energy, Public Works, Roads & Highways, Mines, Industries, Urban Development, and Labour	Has served as Additional Chief Secretary to the Govt. of Rajasthan in 2013 as an IAS officer. Post-retirement, has been an adviser to Solar Energy Corp. of India and Hindustan Zinc, besides being a Senior Consultant for the World Bank funded Road sector project.
Rajeev Mishra	Chief Financial Officer	Master's degree in Business Administration (Marketing & Finance) from FMS, IIRM-Jaipur; Diploma in HRD from NIR&D, Chennai	>24 years of experience in the fields of banking and real estate	Has been associated with the Company since 11-Jul-2015
Ashok Kumar Thakur	Independent Director	Master of Commerce - Lucknow University	>39 years of experience in the banking industry	Has held various positions at Union Bank of India, including General Manager (HR) at Corporate Office, General Manager (Kolkata Zone), and Deputy General Manager (Regional Head) at Kolkata and Chandigarh; has also chaired Rewa Siddhi Gramin Bank
Monica Widhani	Independent Director	Chartered Accountant	>35 years of corporate experience in Strategic Business Management, Marketing, and Finance	Has held leadership roles across various functions at Bharat Petroleum Corporation; presently also an Independent Director at Gujarat Pipavav Port and ABB India
Sharada Sunder	Independent Director	Chartered Accountant	>30 years of corporate experience in business management with expertise in Business Strategy and Execution, Consumer Insight & Engagement, Financial Management, Business Strengthening, Team Building & Coaching, and Creativity & Innovation	
Manjit Singh	Independent Director	MBBS from Govt. Medical College - Panjab University; Executive MBA in Quality Management from The International Institute of Enterprises, Slovenia; has completed an Urban Management Course from IIM Ahmedabad	>31 years of senior-level experience across various departments, including Urban Development, Tourism, Transport, Social Sector, Finance, and Excise	Served as Additional Chief Secretary in the Department of Local Self Government (UDH) for the Govt of Rajasthan as an IAS officer. Post-retirement, has been a consultant/Senior Advisor to Indus Tower and SMC Infrastructure Pvt
Pooja Hemant Goyal	Independent Director	Bachelor in Commerce and Master of Law from Jiwaji University, Madhya Pradesh	>14 years of experience in the legal industry as a practitioner	Was associated with Mumbai-based law firm NV Vechalekar & Co

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Key Risks

Concentration risk: The Company is currently highly dependent on orders from the Roads sector. Any slowdown in ordering activity could have an adverse impact on the financials.

Diversification risks: Though the company has maintained strong margins for now, diversification can lead to dilution if orders are taken aggressively. The management does not intend to bid for BOT (Toll)–based projects independently; however, higher awards by MoRTH (incl. NHAI) for such projects would result in HGIEL operating as an EPC sub-contractor for the main contractor. This could result in lower EPC margins for the company. Also, given its limited experience in new areas such as water infrastructure, solar, etc., the company may have to partner with other entities for technical project needs.

Competition risk: Since the relaxation of bidding requirements by NHAI and MORTH for road projects, the industry has seen the magnitude of bidding intensity rise multifold. This has led to smaller developers, despite their limited risk understanding, securing a larger market share by becoming L1 in major tenders. Consequently, this may make it more challenging for the company to win orders on healthy margins, which is one of the key factors that the management will consider for its order book.

Commodity inflation: Significant inflation in raw materials can have a bearing on margins. As steel, cement, bitumen, etc. are major raw materials in this space, significant volatility in their prices and/or any delay in managing inventory may lead to margin deterioration. Moreover, geopolitical crises could result in considerable volatility in commodity prices which could be margin dilutive for the company.

Working capital cycle risk: The delay in payments by authorities can lead to higher debtors, thus impacting the overall working capital cycle of the company, in turn subduing cash generation. This could also impact the future execution of projects and investments.

Project risks: The delay in achieving financial closure/land acquisition and manpower requirements of HAM projects and overall delay in EPC projects may hamper the company's ability to meet client engagements. Our current projections do not factor in any significant delay. Project cost overrun due to various factors is also a risk.

Policy risks: The past Union Budgets have been pivotal for India's modernization, with the GoI allocating a record amount for infrastructure development. However, the new coalition government might be less decisive. Although the investment thrust on infrastructure is expected to continue, the pace could be slower than before, due to varying perspectives and interests affecting the decision-making of a coalition government. This may result in slowdown in ordering activity which in turn may impact the company's core business.

ESG

HGIEL is developing ESG standards in terms of awareness, codes & policies, data strengthening, goals & targets and reporting. FY25 targets include ESG software tool, BRSR assurance, and GHG accounting and reporting. Its environmental initiatives are water accounting, rainwater harvesting and ground water recharge, and increased plantations. Social campaigns would revolve around safety and HSE.

It has implemented the Business Responsibility and Sustainability Development Policy from FY23.

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HG Infra Engineering : Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**44,185**	**51,217**	**63,222**	**76,150**	**92,994**
Revenue growth (%)	22.2	15.9	23.4	20.4	22.1
EBITDA	**7,103**	**8,220**	**10,115**	**11,994**	**14,089**
EBITDA growth (%)	21.5	15.7	23.1	18.6	17.5
Depreciation & Amortization	963	1,412	1,629	1,786	1,976
EBIT	**6,140**	**6,808**	**8,487**	**10,208**	**12,112**
EBIT growth (%)	22.9	10.9	24.7	20.3	18.7
Other operating income	0	0	0	0	0
Other income	181	126	132	142	151
Financial expense	633	810	1,037	1,358	1,227
PBT	**5,687**	**6,124**	**7,582**	**8,991**	**11,037**
Extraordinary items	0	0	0	0	0
Taxes	1,474	1,737	1,911	2,266	2,781
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**4,214**	**5,455**	**5,671**	**6,725**	**8,255**
PAT growth (%)	24.4	29.5	4.0	18.6	22.7
Adjusted PAT	**4,214**	**4,645**	**5,671**	**6,725**	**8,255**
Diluted EPS (Rs)	**64.7**	**71.3**	**87.0**	**103.2**	**126.7**
Diluted EPS growth (%)	24.4	10.2	22.1	18.6	22.7
DPS (Rs)	**1.0**	**1.2**	**2.0**	**2.5**	**3.0**
Dividend payout (%)	**1.5**	**1.8**	**2.3**	**2.4**	**2.4**
EBITDA margin (%)	16.1	16.0	16.0	15.8	15.2
EBIT margin (%)	13.9	13.3	13.4	13.4	13.0
Effective tax rate (%)	25.9	41.6	25.2	25.2	25.2
NOPLAT (pre-IndAS)	**4,549**	**3,977**	**6,348**	**7,636**	**9,060**
Shares outstanding (mn)	65.2	65.2	65.2	65.2	65.2

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	652	652	652	652	652
Reserves & Surplus	17,133	22,533	28,074	34,637	42,696
Net worth	**17,784**	**23,185**	**28,726**	**35,288**	**43,348**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(210)	(375)	(375)	(375)	(375)
Total debt	**5,071**	**4,599**	**7,099**	**8,599**	**6,099**
Total liabilities & equity	**22,646**	**27,409**	**35,450**	**43,512**	**49,072**
Net tangible fixed assets	6,291	7,320	7,691	7,905	7,929
Net intangible assets	15	17	17	17	17
Net ROU assets	40	86	86	86	86
Capital WIP	719	42	42	21	11
Goodwill	0	0	0	0	0
Investments [JV/Associates]	7,447	6,276	14,624	21,053	24,592
Cash & equivalents	**1,794**	**1,993**	**1,640**	**2,139**	**2,978**
Current assets (ex-cash)	18,576	24,905	26,884	30,415	34,896
Current Liab. & Prov.	12,237	13,229	15,534	18,123	21,436
NWC (ex-cash)	**6,339**	**11,676**	**11,351**	**12,292**	**13,460**
Total assets	**22,646**	**27,409**	**35,450**	**43,512**	**49,072**
Net debt	3,278	2,607	5,459	6,460	3,121
Capital employed	22,646	27,409	35,450	43,512	49,072
Invested capital	**12,685**	**19,098**	**19,144**	**20,299**	**21,491**
BVPS (Rs)	272.9	355.8	440.8	541.5	665.1
Net Debt/Equity (x)	0.2	0.1	0.2	0.2	0.1
Net Debt/EBITDA (x)	0.5	0.3	0.5	0.5	0.2
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	**32.1**	**27.7**	**27.4**	**26.2**	**26.5**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	5,687	6,124	7,582	8,991	11,037
Others (non-cash items)	0	0	0	0	0
Taxes paid	(1,571)	(1,931)	(1,911)	(2,266)	(2,781)
Change in NWC	512	(5,503)	326	(941)	(1,168)
Operating cash flow	**5,871**	**2,710**	**7,674**	**8,787**	**10,139**
Capital expenditure	(3,418)	(1,810)	(2,000)	(1,979)	(1,989)
Acquisition of business	(3,902)	1,171	(8,348)	(6,429)	(3,540)
Interest & dividend income	79	87	132	142	151
Investing cash flow	**(6,827)**	**(870)**	**(9,359)**	**(8,266)**	**(5,378)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	1,912	(472)	2,500	1,500	(2,500)
Payment of lease liabilities	14	14	14	14	14
Interest paid	(633)	(810)	(1,037)	(1,358)	(1,227)
Dividend paid (incl tax)	(65)	(81)	(130)	(163)	(196)
Others	(40)	(95)	3,477	2,985	0
Financing cash flow	**1,174**	**(1,457)**	**4,809**	**2,964**	**(3,923)**
Net chg in Cash	219	383	3,124	3,484	839
OCF	5,871	2,710	7,674	8,787	10,139
Adj. OCF (w/o NWC chg.)	6,383	(2,793)	7,999	7,845	8,971
FCFF	2,453	900	5,674	6,808	8,150
FCFE	1,899	178	4,769	5,591	7,074
OCF/EBITDA (%)	82.7	33.0	75.9	73.3	72.0
FCFE/PAT (%)	45.1	3.3	84.1	83.1	85.7
FCFF/NOPLAT (%)	**53.9**	**22.6**	**89.4**	**89.2**	**90.0**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	26.3	23.9	19.5	16.5	13.4
P/CE(x)	21.4	22.2	15.2	13.0	10.8
P/B (x)	6.2	4.8	3.9	3.1	2.6
EV/Sales (x)	2.6	2.2	1.8	1.5	1.2
EV/EBITDA (x)	16.1	13.8	11.5	9.8	8.1
EV/EBIT(x)	18.6	16.7	13.7	11.5	9.4
EV/IC (x)	9.0	5.9	6.1	5.8	5.3
FCFF yield (%)	2.1	0.8	4.9	5.8	7.2
FCFE yield (%)	1.7	0.2	4.3	5.0	6.4
Dividend yield (%)	0.1	0.1	0.1	0.1	0.2
DuPont-RoE split					
Net profit margin (%)	9.5	7.0	9.0	8.8	8.9
Total asset turnover (x)	2.2	2.0	2.0	1.9	2.0
Assets/Equity (x)	1.3	1.2	1.2	1.2	1.2
RoE (%)	**26.8**	**17.5**	**21.9**	**21.0**	**21.0**
DuPont-RoIC					
NOPLAT margin (%)	10.3	7.8	10.0	10.0	9.7
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**37.6**	**25.0**	**33.2**	**38.7**	**43.4**
Operating metrics					
Core NWC days	52.4	83.2	65.5	58.9	52.8
Total NWC days	**52.4**	**83.2**	**65.5**	**58.9**	**52.8**
Fixed asset turnover	4.7	4.4	4.5	4.8	5.2
Opex-to-revenue (%)	5.9	7.4	6.0	5.9	5.9

Source: Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
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