

Institutional Equity Research

HG Infra Engineering

Construction | India

Company Update | 14 December 2020

CMP* (Rs)	223
Upside/ (Downside) (%)	76
Bloomberg Ticker	HGINFRA
Market Cap. (Rs bn)	15
Free Float (%)	26
Shares O/S (mn)	65

BUY 

2 Year Target Price: Rs.392

Poised to Take a Leap

Key Triggers:

- ☞ Healthy Revenue Visibility on Robust Order Book
- ☞ Execution Expertise Aided to Get Scale in Last 5 Years
- ☞ HAM Projects – Comfortably Moving on Expected Lines
- ☞ Healthy & Least-leveraged Balance Sheet
- ☞ Superior Return Ratios

1. HG Infra Engineering (HGINFRA) is one of the leading EPC players in India in roads and highways segment. The company has excellent project execution track record in 8 Indian states, and currently, it has active projects in 5 states.
2. Its order book has clocked 46% CAGR over the last five years, while outstanding order book at Rs64bn as on 1HFY21 (3.3x of TTM revenue) offers healthy revenue visibility. Most of its under-execution projects have gathered momentum with steady rise in labour availability at project locations.
3. Whilst the company did not secure any order in 1HFY21, it expects to add projects worth Rs35-40bn in 2HFY21E considering the current bid pipeline of >Rs120bn.
4. Its 3 out of 4 HAM projects are moving as per schedule and Appointed Date (AD) for the fourth project is expected shortly.
5. The company has been deleveraging balance sheet. Debt: Equity ratio, which stood at 0.31x in FY20, helped the company to generate superior return ratios.

ESG Analysis: While analyzing 20 key criteria under ESG Matrix, we have assigned an overall score of 63% to HGINFRA. Under **"Environmental Head"**, we have assigned 59% score, as infrastructure projects directly result in varied types of pollution and wastages. Under **"Social Head"**, we have assigned 64% score, as the company scores high on data protection, customer satisfaction, human rights and community relations front despite scoring low on gender diversity front. Under **"Governance Head"**, it scores 65% due to high score in executive compensation and whistleblower scheme (please refer to page no 5-7 for detailed ESG analysis).


Outlook & Valuation

HGINFRA is among few quality EPC companies, which has been delivering steady earnings performance for last couple of years despite the macro challenges (78% earnings CAGR over FY15-FY20). We continue to expect its earnings to clock 20% CAGR in the next 3 years led by robust order book and pick-up in execution. **At CMP, the stock trades at 6.3x of FY22E and 5.1x of FY23E earnings with >20% return ratio.** Whilst we have downwardly revised our earnings estimate by 27% and 18% for FY21E and FY22E, respectively to factor in lockdown-led revenue loss and soft order inflow in 1HFY21, we continue to view HGINFRA as a quality play in EPC space owing to its superior execution expertise, robust order book, balance sheet strength and industry-leading return ratio. Further, expected PEG ratio of 0.16x and 0.21x for FY22E and FY23E, respectively offers comfort. Trimming our target multiple to 9x (from 12x earlier) mainly due to soft ordering activities in last one year, execution challenges and rolling over our estimates to FY23E, we maintain BUY on HGINFRA with a revised 2-Year Target Price of Rs392 from Rs400 earlier). Our target multiple is reasonable given its historical average of 10x.

Financial Summary

Y/E Mar (Rs.mn)	FY19	FY20	FY21E	FY22E	FY23E
Sales	20,098	21,961	21,553	27,996	33,240
EBITDA	3,032	3,424	3,402	4,289	5,107
Net Profit	1,236	1,657	1,659	2,292	2,841
EPS (Rs)	19.0	25.4	25.5	35.2	43.6
P/E (x)	11.8	8.8	8.8	6.3	5.1
P/B (x)	2.2	1.8	1.5	1.2	1.0
EV/EBITDA	5.7	5.0	4.6	3.5	2.5

Source: Company; RSec Research

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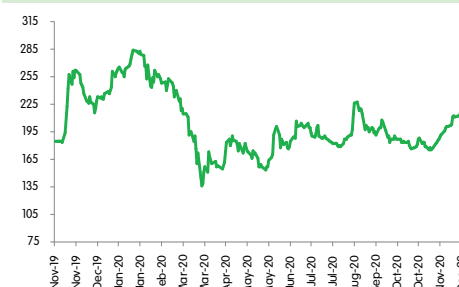
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Share price (%)	1 mth	3 mth	12 mth
Absolute performance	22.2%	15.7%	3.9%
Relative to Nifty	15.5%	-3.8%	-9.8%

Shareholding Pattern (%)	Jun'20	Sep'20
Promoter	74.0	74.0
Public	26.0	26.0

Change of Estimates (% change)	FY21E	FY22E
Revenue	(25.1)	(16.6)
EBITDA	(18.8)	(12.7)
PAT	(27.4)	(18.2)
EPS	(27.5)	(18.2)

1 Year Stock Price Performance

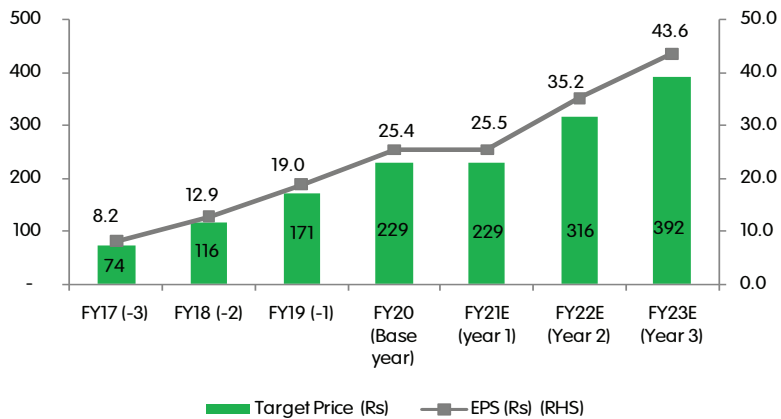


Note: * CMP as on 11 December 2020

Our Thesis

Order Book as on 1HFY21: Rs64bn				
Segments	Core EPC		HAM EPC	
Order Book(Rs bn)	50		14	
Order Book- % break up	78%		22%	
Clients	Government		Private	
Client Exposure(%)	68%		32%	
Order Book (Regionwise)	North(Rajastha, Haryana)	South(Telangana)	Central(Uttar Pradesh)	West(Maharashtra)
Regionwise Exposure(%)	70%	13%	14%	3%
Key Sectoral Theme	<p>► Roads & Highways: About 1,815 projects have been identified to be implemented in 2020-25 under National Infrastructure Pipeline (NIP). The total capex for these projects by the Centre is estimated at Rs13.8trillion over fiscals 2020 to 2025. The projects include construction of new expressways such as Delhi– Mumbai Expressway, Bengaluru–Chennai Expressway, etc. Several projects being implemented include four laning/two laning or widening of existing highways.</p>			
	<p>► Projects Award in Roads & Highways: Having awarded projects worth Rs470bn in 1HFY21, government is expected to award road projects worth Rs2 trillion in 2HFY21, which bodes well for companies having sound expertise in this space.</p>			
Key Investment Themes	<p>► Healthy Revenue Visibility on Robust Order Book: Unlike peers, HGINFRA's order book has witnessed an exponential 46% CAGR over FY15-FY20. Its current order book at Rs64bn (3.3x of TTM revenue) offers healthy revenue visibility.</p>			
	<p>► Successful Transformation into a Prime Contractor: It has diversified its operations into more states to capitalize on the opportunities. The company has excellent project execution track record in 8 Indian states (vs. only 2 states in FY15), and currently, it has active projects in 5 states. Similarly, its revenue contribution from sub-contracting work has skewed from 50% in FY15 to 25% in FY20 and is likely to go down further in subsequent years.</p>			
	<p>► HAM Projects – Comfortably Moving on Expected Lines: HGINFRA has been successfully able to monetize resources and raise equity components for 3 ongoing HAM projects, while it has recently received sanction letter from Canara Bank for its fourth HAM project (Rewari-Ateli-Mandi Package-IV). With 85% lands are already acquired, the company expects appointed date of this project to come shortly.</p>			
	<p>► Healthy & Least-leveraged Balance Sheet: Steady margin and comfortable working capital cycle (ranging from 40 to 85 days) over last five years helped the company to maintain a lean balance sheet. Its net debt to equity ratio and net debt to EBITDA ratio stood at 0.3x and 0.7x, respectively as on FY20 and we expect the company to become net cash company in FY23E in light of the current size of HAM projects.</p>			
Key Risks	<p>► Sharp rise in input cost</p> <p>► Delay in order execution due to regulatory issues</p> <p>► Project cancellation</p> <p>► Considerable delay in arrival of labourers to project site</p>			

EPS & Target Price



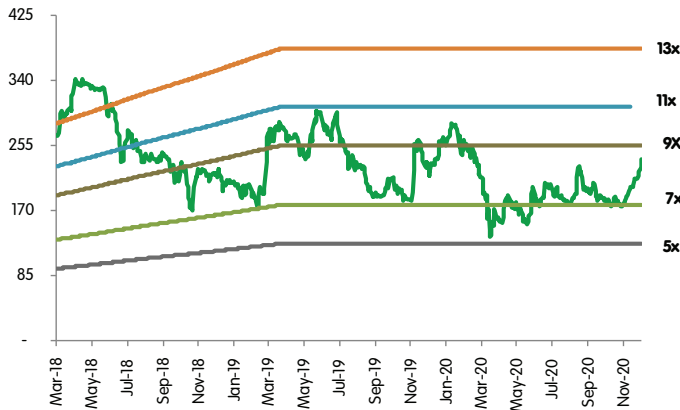
Source: Company, RSec Research

Price Sensitivity Analysis

	EPS (Rs)	Growth (%)	Fwd PE (x)	5	7	9	12	15
FY17 (-3)	8.2		28.9	41	57	74	98	123
FY18 (-2)	12.9	57.7	18.3	65	91	116	155	194
FY19 (-1)	19.0	46.6	12.5	95	133	171	228	284
FY20 (Base year)	25.4	34.1	9.3	127	178	229	305	381
FY21E (year 1)	25.5	0.1	9.3	127	178	229	306	382
FY22E (Year 2)	35.2	38.1	6.7	176	246	316	422	527
FY23E (Year 3)	43.6	24.0	5.4	218	305	392	523	654

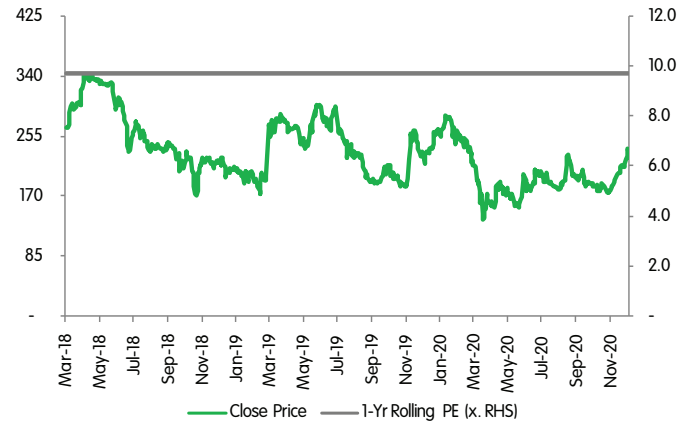
Source: RSec Research

1 Yr Forward PE Band



Source: Company, RSec Research

1 Yr Forward Rolling PE



Source: Company, RSec Research

Revised v/s Old Estimates

(Rs mn)	FY21E			FY22E			FY23E
	Old	Revised	% Chg.	Old	Revised	% Chg.	
Revenue	28,775	21,553	(25.1)	33,549	27,996	(16.6)	33,240
EBITDA	4,187	3,402	(18.8)	4,915	4,289	(12.7)	5,107
EBITDA Margin (%)	14.6	15.8		14.7	15.3		15.4
PAT	2,285	1,659	(27.4)	2,802	2,292	(18.2)	2,841
Margin (%)	7.9	7.7		8.4	8.2		8.5
EPS (Rs)	35.1	25.5	(27.5)	43.0	35.2	(18.2)	43.6

Source: RSec Research

We have downwardly revised our earnings estimate by 27% and 18% for FY21E and FY22E, respectively to factor in lockdown-led revenue loss and soft order inflow in 1H FY21. Further, social distancing norm is also impacting the execution pace even after steadily rising workforce availability at project sites.

Scenario Analysis

Base Case: In Base Case scenario, we expect its order book and earnings to clock 9.5% CAGR and 20% CAGR, respectively over FY20-FY23E. We arrive at a 2-Year Target Price of Rs392, at PE multiple of 9x of FY23 EPS.

Base Case

(Rs mn)	FY20	FY21E	FY22E	FY23E
Order Book	71,028	69,475	81,479	93,239
Revenue	21,961	21,553	27,996	33,240
EBITDA	3,424	3,402	4,289	5,107
EBITDA margin (%)	15.6	15.8	15.3	15.4
APAT	1,657	1,659	2,292	2,841
EPS (Rs)	25.4	25.5	35.2	43.6
Target Multiple (x)				9
Target Price (Rs)				392

Source: Company; RSec Research

Bull Case: In Bull Case scenario, we expect its order book and earnings to clock 15% CAGR and 31% CAGR, respectively over FY20-FY23E. We arrive at a 2-Year Target Price of Rs576, at PE multiple of 10x of FY23 EPS.

Bull Case

(Rs mn)	FY20	FY21E	FY22E	FY23E
Order Book	71,028	69,475	90,873	1,08,555
Revenue	21,961	21,553	28,602	37,317
EBITDA	3,424	3,553	4,696	6,322
EBITDA margin (%)	15.6	16.5	16.4	16.9
APAT	1,657	1,772	2,596	3,751
EPS (Rs)	25.4	27.2	39.8	57.6
Target Multiple (x)				10
Target Price (Rs)				576

Source: Company; RSec Research

Bear Case: In Bear Case scenario, we expect its order book and earnings to clock negative CAGR of 2% and 3%, respectively over FY20-FY23E. We arrive at a 2-Year Target Price of Rs186, at PE multiple of 8x of FY23 EPS.

Bear Case

(Rs mn)	FY20	FY21E	FY22E	FY23E
Order Book	71,028	69,475	62,693	67,289
Revenue	21,961	21,553	26,782	25,403
EBITDA	3,424	3,229	3,780	3,330
EBITDA margin (%)	15.6	15.0	14.1	13.1
APAT	1,657	1,530	1,911	1,512
EPS (Rs)	25.4	23.5	29.3	23.2
Target Multiple (x)				8
Target Price (Rs)				186

Source: Company; RSec Research

Investment Decision Matrix (IDM)

Key Criteria	Score	Risk	Comments
Management Quality	8	Low	The management has been displaying remarkable ability in terms of execution expertise and achieving business scale over the years
Promoter's Holding Pledge	8	Low	Zero pledging of promoters' shareholding offers comfort
Board of Directors Profile	8	Low	Board of directors consists of six members including three independent directors.
Industry Growth	8	Low	While order flow has been volatile for the industry, opportunity remains promising in the long-run; HGINFRA's order book witnessed 46% CAGR over last five years
Regulatory Environment / Risk	4	High	Regulatory risk in terms of land acquisition, environment/forest clearance are high, which results in delay in execution of projects on several occasions
Entry Barriers / Competition	5	Medium	Technical and financial pre-qualification is of utmost importance to secure big-ticket projects
New Business/Client Potential	6	Low	Rich experience in road projects, which have promising opportunities, going forward bodes well for the company
Business Diversification	5	Medium	It can expand into other segments through technical partnerships
Market Share Potential	7	Low	Strong financials and lean balance sheet offer opportunity to bid for more projects
Margin Expansion Potential	7	Low	Its operating margin remains decent, which is likely to sustain, going forward as well
Earnings Growth	6	Low	HGINFRA, which delivered earnings growth of 78% CAGR over last five years, is expected to clock 20% earnings CAGR over next three years
Balance Sheet Strength	6	Low	The company has been maintaining strong balance sheet; its accumulated OCF stood at Rs4.6bn over FY15-FY20
Debt Profile	7	Low	Net Debt to EBITDA ratio stands at 0.7x and net debt to equity ratio stands at 0.3x in FY20
FCF Generation/NWC	8	Low	Negative FCF of Rs2.3bn over last five years can be attributed to substantial improvement in order book and higher capex; It is expected to generate Rs7.9bn positive FCF in next 3 years in the absence of high capex requirement
Dividend Policy	5	Medium	The company started paying dividend from FY19 onwards
Total Score Out of 150	94		
Average Score (%)	63%	Low	

Environment Social Governance Matrix (ESGM)

Key Criteria	Score	Risk	Comments
Environment			
Climate Change and Carbon Emission	5	Medium	HGINFRA is committed to take all precautions to safeguard the environment and comply with all legal requirements; it has impact analysis system for any particular project based on geographical condition / environment
Air & Water Pollution	4	High	Emissions/wastages generated by the company are within the permissible limits given by the CPCB/SPCB; however, air and water pollution cannot be completely ruled out in any infrastructure project
Biodiversity	5	Medium	HGINFRA develops Environment Management Systems (EMS) and contingency plans and processes that help in preventing, mitigating and controlling environmental damages and disasters, which may be caused in course of its operations
Deforestation	5	Medium	All infrastructure projects in India have to be fully compliant with the rules prescribed by the Ministry of Environment, Forest & Climate Change; all projects must be approved by the forest department before execution begins
Energy Efficiency	7	Low	The company has adopted solar energy system at its base camp situated in Pali district of Rajasthan; for renewable energy, it has adopted sedimentation systems near major plants for reuse of waste water
Waste Management	7	Low	The company ensures re-use policy for the waste generated at project site; it uses plastic wastages during the bituminous work
Defense / Arms / Ammunition Exposure	8	Low	No exposure to arms and ammunition space
Social			
Customer Satisfaction	7	Low	No pending customer complaint / consumer case as of the end of FY20
Data Protection & Privacy	8	Low	The company deploys IT systems to mitigate risks arising due to unavailability of systems and/or loss or manipulation of information; systems are upgraded regularly with the latest security standards
Gender & Diversity	4	High	Out of total 2,348 employee, 1,458 are hired on temporary/contractual/casual basis and 23 are women employees; there is no employee with any disability
Employee Engagement	6	Low	100% of permanent employees / workers are provided with safety and skill up-gradation training; through construction projects, the company has been providing skill development and employment to young manpower residing in nearby rural areas
Community Relations / Service	7	Low	It spent Rs~14.2mn on CSR activities in FY20; its major CSR activities include education, healthcare, skill development and COVID-19 relief
Human Rights	7	Low	Human rights policy goes beyond the company level to group/JVs/suppliers/contractors/others
Labour Standard	6	Low	HGINFRA's human rights policy covers not only the company, but also is extended to suppliers/contractors/others; the company is committed to comply with all human rights, practices across group companies; it has not received any complaint pertaining to violation of human rights

Key Criteria	Score	Risk	Comments
Governance			
Audit Committee Structure	6	Low	The audit committee comprises of 3 members namely: Mr. Ashok Kumar Thakur, Chairman (Independent Director); Mr. Onkar Singh, member (Independent Director); and Mr. Harendra Singh, member (CMD)
Bribery & Corruption	7	Low	No credible information is available in this regard; however, the company has in place policy relating to ethics, bribery and corruption, which is applicable to other group companies as well
Executive Compensation	8	Low	Average salary of key executives witnessed 1.8% CAGR over last 4 years compared to 49.1% PBT CAGR during the same period
Lobbying	5	Medium	HGINFRA has advocated various issues with the associations and is in constant touch with the concerned ; association/department for improvement of the same; it is the member of Federation of Indian Chambers of Commerce & Industry and National Highway Builders Federation etc.
Political Contribution	5	Medium	The company contributed Rs15mn to the 'Rajasthan Chief Minister COVID-19 Relief Fund in FY20
Whistleblower Scheme	8	Low	The company has vigil mechanism/whistleblower policy to encourage directors and employees to report the instances of unethical behaviour and actual or suspected incidents of fraud or violation of the code of conduct that could adversely impact the company's operations, business performance and / or reputation/ goodwill
Total Score Out of 200	125		
Total Score (%)	63%	Low	

Score	For < 5	Red	High Risk	For 5	Blue	Medium Risk	For > 5	Green	Low Risk
Total Score (%)	For < 50	Red	High Risk	For 50	Blue	Medium Risk	For > 50	Green	Low Risk

Management ConCall Takeaways

- ▶ **Order Inflow & Bid Pipeline:** While HGINFRA secured no order in 1HFY21, it expects to add orders worth Rs35-40bn in 2HFY21E. Currently, it is bidding for 5 railways projects (including IRCON) worth ~Rs40bn. Additionally, bid pipeline under HAM and EPC is seen at ~Rs80bn. The Government awarded projects worth Rs470bn in 1HFY21, while road projects worth Rs2 trillion are expected to be awarded in 2HFY21E.
- ▶ **Competitive Intensity in HAM Projects:** After recent changes in model concession agreement by the National Highways Authority of India (NHAI), competitive intensity has increased in the HAM projects. Now, about 10-12 players are bidding for each HAM project as against 5-6 bidders earlier.
- ▶ **Revenue Guidance:** HGINFRA expects its revenue booking to pick-up meaningful momentum in 2HFY21E and looks forward to robust double-digit growth from FY22E onwards. Notably, its execution rate has reached the pre-COVID level now.
- ▶ **Receivables from WB-funded Rajasthan Project:** Out of the total outstanding receivables of Rs5.96bn, the company has received a significant amount so far with which its current outstanding balance stands at Rs2.68bn. Notably, the company received Rs920mn in 1HFY21. It has also received Rs840mn in Nov'20 and further Rs500mn is expected to be collected by Dec'20 and thus, ~Rs1bn is expected to be collected in 4QFY21E. The management is quite confident of receiving all payments.
- ▶ **Receivables from Other Key Clients:** HGINFRA collected Rs1.85bn from IRB in 1HFY21, with which the balance receivable now stands at Rs1.1bn. Further, receivable from Tata Projects now stands at Rs450mn (Rs80mn was collected in 2QFY21). Notably, GVK is paying Rs10mn/month to the company towards pending receivables.
- ▶ **Status of Key Ongoing Projects:** (1) Adani Project (Talangana): Appointed date was obtained in Aug'20 and the project is 25% complete; (2) Delhi-Vadodara Package-VIII: Appointed date was obtained on 7th Nov'20 and the company had already mobilized resources for the project; (3) Delhi- Vadodara Package-IX: 89% of land has already been acquired and the appointed date is likely to be obtained shortly; (4) Maharashtra EPC Projects: It received PCODs for 4 out of 7 EPC projects and PCODs for other 2 projects are expected to be received shortly; (5) Rewari-Ateli Package-IV: HGINFRA has received sanction letter from Canara Bank @ 8.75% and 85% land of land acquisition has been completed. Appointed date is expected shortly.
- ▶ **Equity Commitments for HAM Projects:** Out of total equity commitment of Rs3.5bn for the existing 4 HAM projects, it infused ~Rs1.96bn in 1HFY21 and expects to infuse the balance equity commitment comfortably. Equity infusion is pegged at Rs1.15bn and Rs0.91bn for FY21E and FY22E, respectively.
- ▶ **Capex & Debt:** HGINFRA incurred Rs310mn capex and phased out assets worth Rs200mn in 1HFY21. Hence, net capex stood at Rs110mn for the period. The management sees capex in the range of Rs600-700mn for FY22E and FY23E. Further, gross debt is expected to remain at current range of ~Rs3bn in FY21E.
- ▶ **Other Key 1HFY21 Data:** It received Rs2.52bn as mobilization advances in 1HFY21 and expects additional mobilization advances to the tune of ~Rs2.5bn from the existing projects. Debtors stood at Rs7.23bn, which includes retention money and unbilled revenue of Rs1.65bn and Rs2.8bn, respectively.

Key Investment Arguments

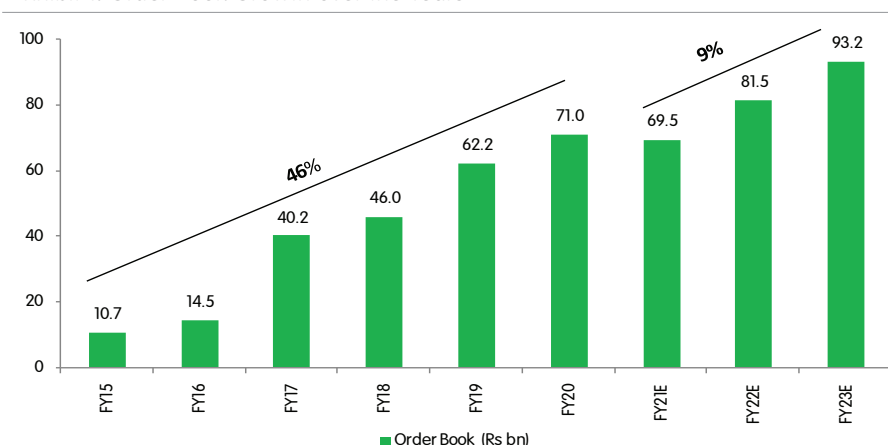
Our investment thesis is based on the following premises:

- I. Healthy Revenue Visibility on Robust Order Book
- II. Successful Transformation into a Prime Contractor
- III. HAM Projects – Comfortably Moving on Expected Lines
- IV. Healthy & Least-leveraged Balance Sheet
- V. Superior Return Ratios

I. Healthy Revenue Visibility on Robust Order Book

Unlike peers, HGINFRA's order book has witnessed an exponential 46% CAGR over FY15-FY20. Its current order book at Rs64bn (3.3x of TTM revenue) offers healthy revenue visibility. Whilst the company did not bag any order in 1HFY21 rather lost some projects due to increased competitive intensity, the management is quite confident for witnessing new orders to the tune of ~Rs35-40bn (road projects out of current bid pipeline of ~Rs120bn) in 2HFY21E. As the company has grown in scale and focus on quality execution, we expect its order book to clock ~9% CAGR over FY20-23E.

Exhibit 1: Order Book Growth over the Years



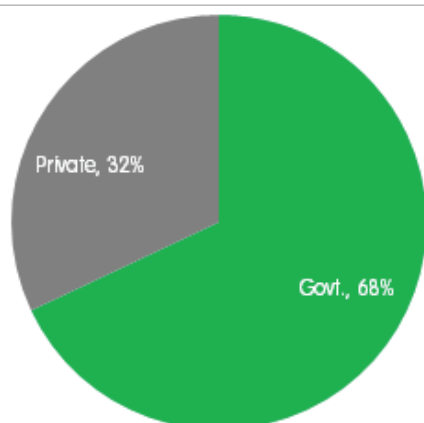
Source: Company, RSec Research

Exhibit 2: A snapshot of Order Book, Inflow and Execution

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Opening Order Book (Rs bn)	10.7	14.5	40.2	46.0	62.2	71.0	69.5	81.5
Inflow(Rs bn)	10.9	36.3	19.7	36.3	30.8	20.0	40.0	45.0
Execution(Rs bn)	7.1	10.6	13.9	20.1	22.0	21.6	28.0	33.2
Closing Order Book(Rs bn)	14.5	40.2	46.0	62.2	71.0	69.5	81.5	93.2

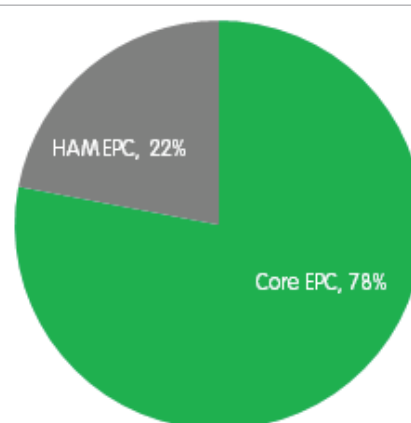
Source: RSec Research

Exhibit 3: Clients' Break-up of Order Book



Source: Company, RSec Research

Exhibit 4: Order Book – Project-Types Break up



Source: Company, RSec Research

Exhibit 5: List of Ongoing Order Book

Detailed Order Book (Rs bn)	Awarding Authority	Type	2QFY21
Delhi Vadodara Pkg-9	NHAI	EPC	11.51
Hapur Morradabad	MRM	EPC	9.01
Mancherial - Repallewa	Adani	EPC	8.85
Delhi Vadodara Pkg-8	NHAI	EPC	8.16
Delhi Vadodara Pkg-4	NHAI	EPC	6.13
Narnual Bypass	NHAI	HAM	4.97
Rewari Ateli Mandi Pkg-4	NHAI	HAM	3.99
Rewari Ateli Mandi	NHAI	HAM	3.32
Gurgaon-Nuh-(Rajiv chowk)	NHAI	HAM	1.64
Bhilwara-Gulabpura	IRB - MRM	EPC	2.17
MoRTH Projects (MH & Rajasthan)	MoRTH	EPC	2.26
Rajasthan Projects (Work Bank funded)	PWD	EPC	1.29
Others			1.14
Total Order Book			64

Source: Company

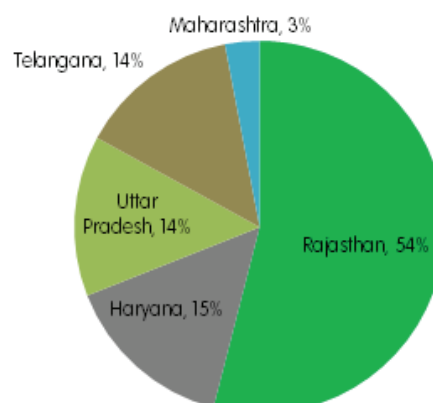
II. Successful Transformation into a Prime Contractor

HGINFRA used to be a major sub-contractor for many construction companies including IRB Infra and Adani Projects etc. However, with improved technical and financial parameters, it has started bidding as a prime contractor for last couple of years. Further, it has also diversified its operations into more states to capitalize on the opportunities. The company has excellent project execution track record in 8 Indian states (vs. only 2 states in FY15), and currently, it has active projects in 5 states. Similarly, its revenue contribution from sub-contracting work has skewed from 50% in FY15 to 25% in FY20 and is likely to go down further in subsequent years.

Exhibit 6: An Overview of Length & Scale in Last Five Years

As on 31st Mar'15	Excelling over the years	As on 30th Sep'20
2	States presence	8
49%	Revenue from sub-contracting	~25%
Rs500mn	Average ticket size	Rs1.8bn
Rs3.3bn	Revenue	Rs21.9bn
Rs2.5bn	EPC pre-qualification	Rs20bn
Rs1.5bn	Gross Block	Rs6.9bn
Rs10.7bn	Order Book	Rs64.4bn
600+	Employee strength	2,300+

Source: Company, RSec Research

Exhibit 7: Current State-wise Order Book Exposur


Source: Company, RSec Research

III. HAM Projects – Comfortably Moving on Expected Lines

HGINFRA owns 4 NHAI-awarded HAM projects in Haryana with aggregate projects cost of Rs26bn. Notably, 3 HAM projects worth of Rs21.4bn are under execution. EPC component of these 4 projects is ~Rs22bn and HAM projects currently account for 22% of the company's total order book. HGINFRA has been successfully able to monetize resources and raise equity components for 3 ongoing HAM projects, while it has recently received sanction letter from Canara Bank for its fourth HAM project (Rewari-Ateli-Mandi Package-IV). With 85% lands are already acquired, the company expects appointed date of this project to come shortly.

Exhibit 8: A Snapshot of HAM Projects

Order(Rs bn)	Client	State	Nature	EPC order (Rs mn)	HAM order (Rs mn)	Equity from HGI
Six laning of Gurgaon-Soha (Pkg-II)	NHAI	Haryana	HAM	5.15	6.06	0.72
Six laning of Ateli Mendi-Narnaul section	NHAI	Haryana	HAM	8.01	9.52	0.76
Four laning of Rewari-Ateli Mandi section	NHAI	Haryana	HAM	4.88	5.80	1.38
Rewari Bypass feeder route	NHAI	Haryana	HAM	4.00	5.22	0.65
Total				22.04	26.60	3.51

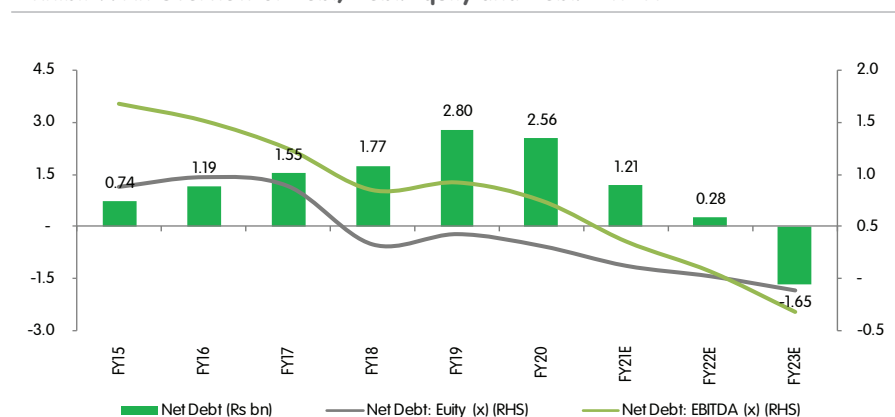
Source: Company, RSec Research

Notably, HGINFRA's all HAM projects are in Haryana and are not located far from each other, which gives an edge to the company to mobilize resources properly and ensure better margin. It has comfortably infused ~Rs1.96bn equity as on 1HFY21 out of total requirement of Rs3.5bn and expects to meet pending equity commitment comfortably. Further, HGINFRA is in active discussion with strategic investors to offload its stake in select HAM projects and the deal is expected to be announced before Mar'20. The move bodes well for the company, as it will release equities from the HAM projects, which can be utilized for new projects to feed growth.

IV. Healthy & Least-leveraged Balance Sheet

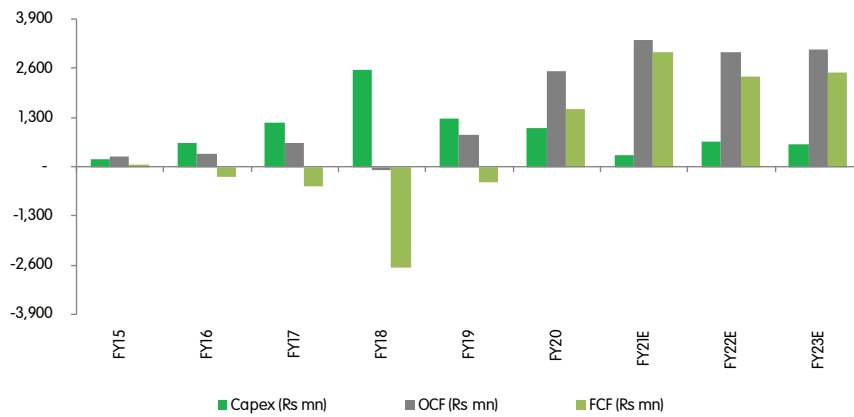
Steady margin and comfortable working capital cycle (ranging from 40 to 85 days) over last five years helped the company to maintain a lean balance sheet. Its net debt to equity ratio and net debt to EBITDA ratio stood at 0.3x and 0.7x, respectively as on FY20 and we expect the company to become net cash company in FY23E in light of the current size of HAM projects.

Exhibit 9: An Overview of Debt, Debt/Equity and Debt/EBITDA



Source: Company, RSec Research

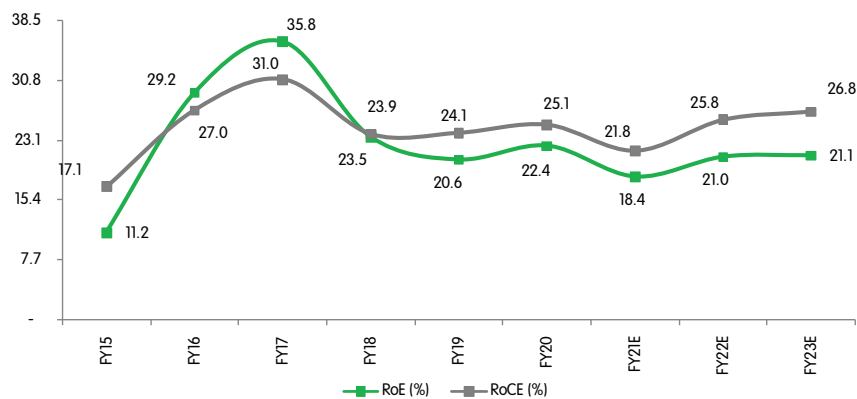
Notably, HGINFRA has incurred a whopping Rs6.7bn aggregate capex over last five years, as its order book size became 6.65x during the period. The company preferred to buy own construction equipment and machineries rather than taking them on lease to save margin. We believe this strategy should bode well for the company in the long-term, as it can redeploy these machineries at new project sites.

Exhibit 10: Working Capital Cycle over the Years


Source: Company, RSec Research

V. Superior Return Ratios

Healthy margin and lean balance sheet aided the company to witness better-than-the-industry returns ratio over the years. Its RoCE and RoE have consistently been above 20%-mark over the years. As the company intends to remain an EPC company and does not focus on BOT (barring HAM) projects, its returns ratio is likely to remain strong in the coming years. Additionally, as its earnings growth has been quite impressive, its PEG has consistently remained below 1x over the years.

Exhibit 11: RoE and RoCE over the Years


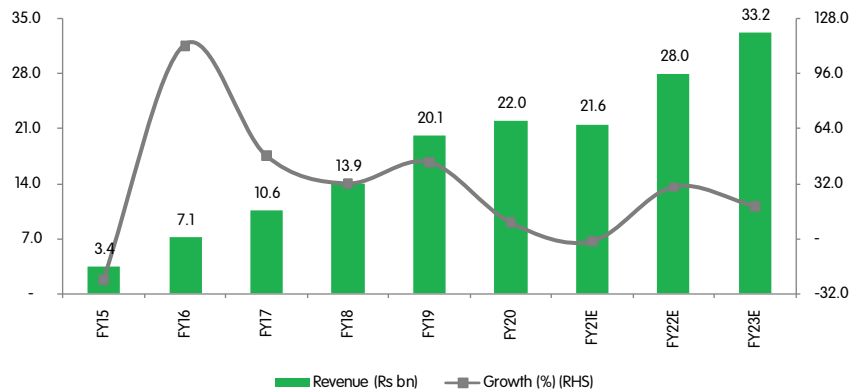
Source: Company, RSec Research

Financial Analysis

I. Revenue Estimated to Record 15% CAGR over FY20-23E

HGINFRA has proven track record of execution excellence during the last five years, which is evident from 46% CAGR in revenue over FY15-FY20. However, its execution rate was impacted in 1HFY21 due to COVID-19 led nationwide lockdown/shutdown. With meaningful improvement in workforce availability during 2QFY21, we expect its execution rate to improve significantly in the subsequent period. We estimate HGINFRA's revenue to clock 15% CAGR over FY20-FY23E.

Exhibit 12: Revenue Growth over the Years

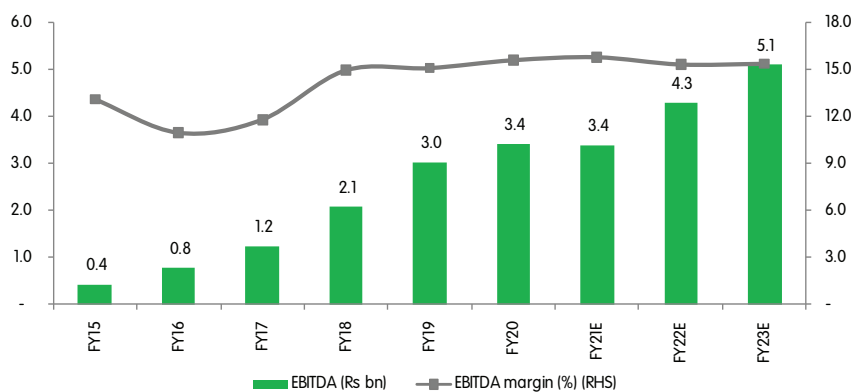


Source: Company, RSec Research

II. EBITDA Margin Likely to Sustain >15%

Successful transition from being a subcontractor to a prime contractor on the back of improvement in technical/financial prequalification, prudent project bidding and efficient cost management enabled HGINFRA to witness remarkable improvement on operating margin front over the years. We expect HGINFRA's EBITDA to clock 14% CAGR over FY20-23E, while EBITDA margin is pegged at 15.4% for FY23E.

Exhibit 13: EBITDA and Margins over the Years

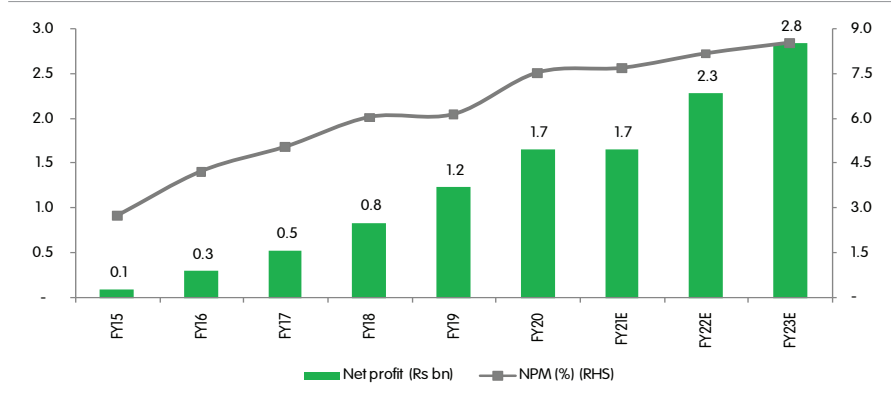


Source: Company, RSec Research

III. APAT Expected to Clock 20% CAGR over FY20-FY23E

Decent operating performance, lower finance cost and lower effective tax are likely to result in 20% CAGR in HGINFRA's adjusted PAT over FY20-FY23E. Notably, its earnings have witnessed 78% CAGR over FY15-FY20.

Exhibit 14: APAT and Growth over the Years

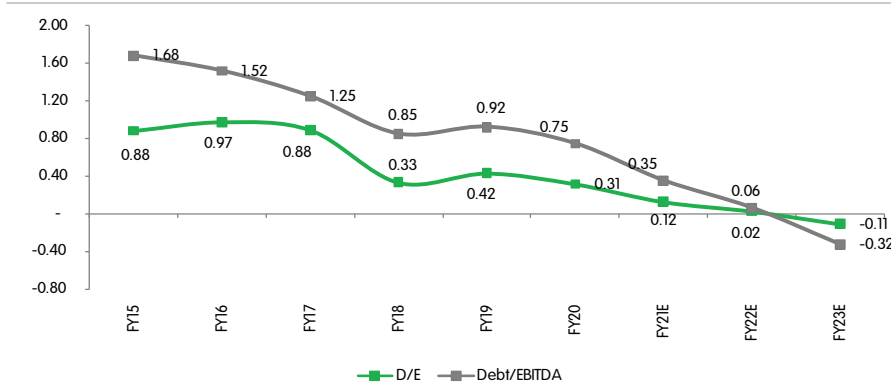


Source: Company, RSec Research

IV. Stable Leverage Position

Over the years, HGINFRA has been able to maintain its leveraging position well despite growing its order book significantly. Its D/E ratio and Debt/EBITDA ratio improved from 0.9x and 1.7x in FY15 to 0.3x and 0.7x in FY20, respectively. We further expect HNINFRA to become net cash company by FY23E.

Exhibit 15: D/E and Debt/EBITDA over the Years

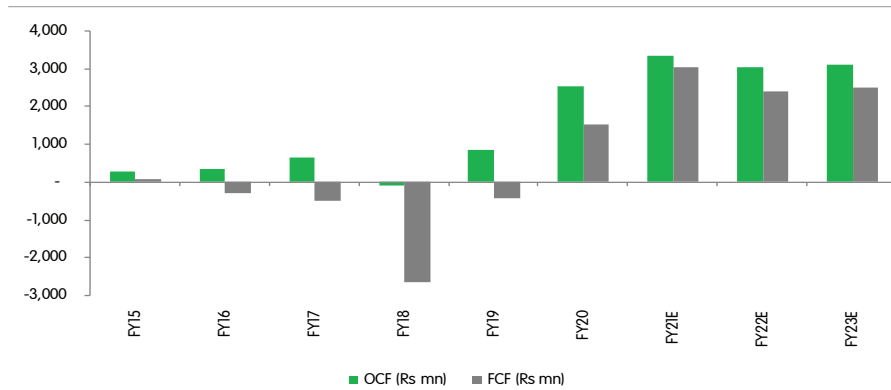


Source: Company, RSec Research

V. Strong OCF Generation

Increased business scale led by higher order book and better execution helped HGINFRA to record cumulative Operating Cash Flow (OCF) of Rs4.6bn. However, cumulative Free Cash Flow (FCF) was negative at Rs2.3bn over FY15-20 due to higher capex. Going forward, we expect HGINFRA to record cumulative OCF and FCF of Rs9.5bn and Rs7.9bn, respectively in the next three years.

Exhibit 16: OCF and FCF over the Years

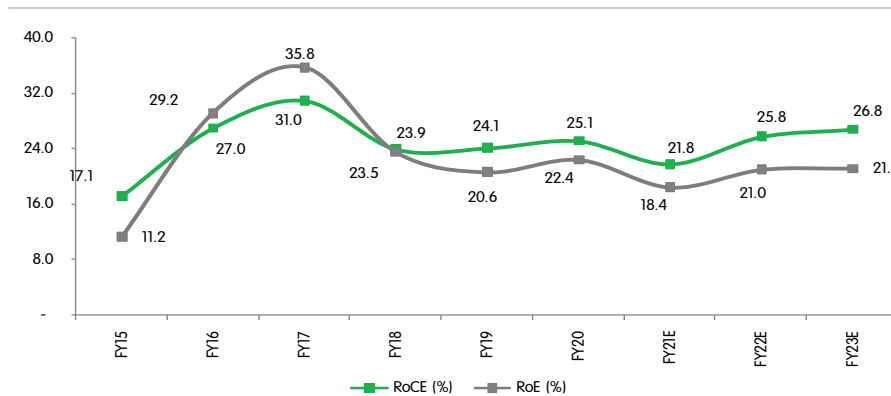


Source: Company, RSec Research

VI. Better-than-the-Industry Return Ratio

Higher profitability and lean balance sheet have been helping HGINFRA to enjoy healthy return ratios, which is higher than the industry's average. It has been consistently maintaining return ratios in the excess of 20% over the year, which is expected to sustain, going forward as well.

Exhibit 17: RoCE & RoE over the Years



Source: Company, RSec Research

Financial Information

Profit & Loss Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Income	20,098	21,961	21,553	27,996	33,240
% yoy growth	44.3	9.3	(1.9)	29.9	18.7
Operating Expenses	17,066	18,538	18,151	23,707	28,134
EBIDTA	3,032	3,424	3,402	4,289	5,107
EBIDTA Margin (%)	15.1	15.6	15.8	15.3	15.4
Depreciation & Amortization	755	756	821	876	948
Finance Costs	490	524	483	492	507
Other Income	115	137	120	142	145
PBT before excep items	1,902	2,281	2,217	3,063	3,797
PBT	1,902	2,281	2,217	3,063	3,797
Tax	667	623	558	771	956
% Tax	35.0	27.3	25.2	25.2	25.2
Net Profit- Reported	1,236	1,657	1,659	2,292	2,841
YoY Growth (%)	46.6	34.1	0.1	38.1	24.0
Net Profit- Adjusted	1,236	1,657	1,659	2,292	2,841
Net Profit Margin (%)	6.1	7.5	7.7	8.2	8.5

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Share Capital	652	652	652	652	652
Reserves & Surplus	5,941	7,565	9,165	11,397	14,179
Total Shareholder's funds	6,592	8,216	9,816	12,049	14,831
Borrowings	3,804	3,705	3,044	2,689	2,539
Non- Current Liabilities	575	809	837	953	1,178
Current Liabilities	4,710	7,955	8,009	9,120	11,271
Total Liabilities	15,681	20,685	21,707	24,811	29,819
Application of Funds					
Gross Fixed Assets	6,146	6,976	7,276	7,926	8,526
Less: Acc. Depreciation	1,527	2,152	2,967	3,843	4,791
Net Fixed Assets	4,619	4,824	4,309	4,083	3,735
CWIP	-	111	111	111	111
Deferred Tax Assets (Net)	84	87	84	84	84
NC Investments	200	908	2,058	2,968	2,968
Inventories	1,161	1,055	1,092	1,243	1,536
Sundry Debtors	6,214	8,078	7,749	8,824	10,905
Other Current Assets	2,163	4,193	4,173	4,751	5,872
Cash & Bank Balances	1,002	1,144	1,837	2,412	4,194
Total Current Assets	10,540	14,470	14,850	17,230	22,507
Other Non-Current Assets	239	284	294	335	413
Total Assets	15,681	20,685	21,707	24,811	29,819

Cash Flow Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT	1,902	2,281	2,217	3,063	3,797
Depreciation	755	756	821	876	948
Net Change in Working Capital	(1,702)	(363)	385	(619)	(1,198)
Others	(7)	83	(0)	6	6
Interest	490	524	483	492	507
Tax Paid	(578)	(732)	(555)	(771)	(956)
Net Cash from Operating Activities	861	2,549	3,352	3,048	3,104
Capex	(1,288)	(1,031)	(300)	(650)	(600)
Sale / (Purchase) of Investments	1,289	14	-	-	-
Others	(102)	(542)	(1,150)	(910)	-
Net Cash used in Investing Activities	(102)	(1,559)	(1,450)	(1,560)	(600)
Borrowings (Net)	(254)	54	(661)	(355)	(150)
Dividend Paid	(39)	(39)	(65)	(65)	(65)
Finance Cost	(488)	(531)	(483)	(492)	(507)
Net Cash used in Financing Activities	(782)	(517)	(1,210)	(912)	(722)
Net Increase/ (Decrease) in Cash	(23)	473	692	575	1,782

Key Ratios

Y/E Mar	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio (x)					
P/E	11.8	8.8	8.8	6.3	5.1
P/CEPS	7.3	6.0	5.9	4.6	3.9
P/BV	2.2	1.8	1.5	1.2	1.0
EV/EBIDTA	5.7	5.0	4.6	3.5	2.5
EV/Sales	0.9	0.8	0.7	0.5	0.4
Dividend Payout (%)	2.6	2.0	3.9	2.8	2.3
Dividend Yield (%)	0.2	0.2	0.4	0.4	0.4
Per Share Data (Rs)					
EPS (Basic)	18.96	25.4	25.5	35.2	43.6
EPS (Diluted)	19.0	25.4	25.5	35.2	43.6
CEPS	30.5	37.0	38.1	48.6	58.1
DPS	0.5	0.5	1.0	1.0	1.0
Book Value	101	126	151	185	228
Returns (%)					
RoCE	24.1	25.1	21.8	25.8	26.8
RoE	20.6	22.4	18.4	21.0	21.1
Turnover ratios (x)					
Asset Turnover (Gross block)	3.3	3.1	3.0	3.5	3.9
Inventory (days)	25	18	18	18	18
Receivables (days)	133	140	130	130	130
Payables (days)	74	94	94	94	94
WCC (days)	84	64	54	54	54
Solvency ratios (x)					
D/E (x)	0.42	0.31	0.12	0.02	(0.11)
D/EBITDA (x)	0.9	0.7	0.4	0.1	(0.3)
Current Ratio (x)	2.2	1.8	1.9	1.9	2.0

Company Overview

Incorporated in 2003, HG Infra Engineering (HGINFRA) is an infrastructure construction, development and management company with extensive experience in road projects, including highways, bridges and flyovers. Its main business operations include: (1) providing Engineering, Procurement and Construction (EPC) services on a fixed-sum turnkey basis; and (2) undertaking civil construction and related infrastructure projects on item rate and lump-sum basis primarily in road and highway sector. As the company has witnessed sharp improvement in pre-qualification led by execution expertise, it has now emerged as a prime contractor. Its current order book stands at Rs64bn (mostly in road and highway space). Notably, it has also started evaluating railway and airports projects on EPC basis.

Shareholding Pattern

Shareholders' Name	Holding (%)
Promoter & Promoter's Group	74.04
Mutual Funds	16.61
Alternative Investment Fund	0.81
FPIs	0.5
Insurance companies	2.18
Non-Institutions	3.33
Corporate Bodies	2.11
Others	0.42
Key Institutional Shareholders	Holding (%)
L&T Mutual Fund Trustee Ltd.	5.64
Reliance Capital Trustee Company Ltd.	5.46
Aditya Birla Sun Life Insurance	2.18

Source: BSE

Rating History

Date	Reco	CMP	TP
30th Jan'20	BUY	253	400
11th Nov'19	BUY	194	360
7th Oct'19	BUY	213	385
13th Aug'19	BUY	231	385
23rd July'19	BUY	244	385
27th May'19	BUY	275	395
4th Feb'19	BUY	205	405
5th Nov'18	BUY	216	405
24th Sept'18	BUY	229	405
1st Aug'18	BUY	245	405
25th May'18	BUY	330	390
19th Mar'18	BUY	301	375

Change in Ratings

We have now only **BUY** and **SELL** Recommendation and have discontinued HOLD Recommendation.

We now have **2 Year Target Price** and have discontinued with 1 year Target Price.

Score	For < 5	Red	High Risk	For 5	Blue	Medium Risk	For > 5	Green	Low Risk
Total Score (%)	For < 50	Red	High Risk	For 50	Blue	Medium Risk	For > 50	Green	Low Risk

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