

H.G. Infra Engineering

BUY

Moving to other sectors for growth

Summary

HG Infra (HGIEL) Q3FY24 operational result (Revenue, EBITDA) came in line to our and consensus estimate. Revenue increased by +19% YoY and EBITDA margin was stable at ~15.9% v/s 16.7% YoY. Order win was muted and company is still hopeful to get inflow of Rs50-60bn in FY24E (received Rs8bn so far). Weak inflow has led to fall in the order book at Rs96bn vs Rs111bn YoY. But order book still provides revenue visibility at 2x FY24E revenue. We maintain BUY rating on the stock with revised TP at Rs1236 (refer exh 7), earlier TP was Rs1169, as we have roll forward to FY26E vs FY25E earlier. Stock catalyst remains order win, for this HGIEL has bid for orders Rs160bn and is venturing into new sectors like solar renewable sector, water supply, tunnelling for inflow.

Key Highlights and Investment Rationale

- Q3FY24 snapshot:** In Q3FY24, HGIEL reported revenue which is up by 19% YoY at Rs13.5bn; Absolute EBITDA in Q3 is higher at +13% YoY, EBITDA margin at 15.9% vs. 16.7% YoY, 15.9% QoQ. However, reported PAT increased by 84% YoY as company had sold its entire shareholding of 3 subsidiaries which resulted gain of Rs1067mn.
- Venturing into new sectors for growth:** Order inflow in FY24E has been muted for HG at Rs8bn (till Jan-24) vs Rs97bn received in FY23. To address this, It has selected new areas of growth a) Solar renewable energy sector under Governments Kusum Yojana, inflow expected is Rs1bn by FY25E. b) JJM water projects is another area where order prospects In Rajasthan/ MP / & UP are upto Rs150bn and inflow expected is Rs5-10bn, c) plans to bid in Tunneling, Underground Metro, Elevated Metro etc. For projects where HG Infra is not qualified it will form JV partnership to bid in those projects.

TP	Rs1,236
CMP	Rs960
Potential upside/downside	29%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	11.4	4.5	41.8
Rel to Sensex	11.6	(7.0)	23.9

V/s Consensus			
EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	78	94	114
Consensus	74	83	88
% difference	5.5	13.0	29.7

Key Stock Data	
Bloomberg/Reuters	HGINFRA IN/HGIN.BO
Sector	Infrastructure
Shares o/s (mn)	65
Market cap. (Rs mn)	62,538
3-m daily avg Trd value(Rs mn)	12.3
52-week high / low	Rs1,017 / 634
Sensex / Nifty	71,731 / 21,772

Shareholding Pattern (%)	
Promoters	74.5
FII	1.6
DII	10.7
Public	13.2

Financial snapshot

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	36,152	44,185	53,618	64,306	75,032
Change (yoy, %)	43	22	21	20	17
EBITDA	5,847	7,103	8,554	9,691	11,260
Change (yoy, %)	40	21	20	13	16
EBITDA Margin(%)	16.2	16.1	16.0	15.1	15.0
Adj.PAT	3,388	4,214	5,101	6,132	7,401
EPS (Rs)	52	65	78	94	114
Change (yoy, %)	60.6	24.4	21	20	21
PE(x)	18.4	14.8	12	10	8
Dividend Yield (%)	0.0	0.1	0	0	0
EV/EBITDA (x)	10.7	8.9	7.1	6.3	5.3
RoE (%)	28.3	26.8	25	24	23
RoCE (%)	36.4	34	33	32	30

Source: IDBI Capital Research, Company

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Conference call takeaways

- Order book at Rs96bn for Q3FY24 (EPC 51%, HAM 37, Railways-12%), company has guided Order inflow of Rs60bn for FY24, Company is awaiting results of 16 bids yet to declare amounting worth Rs140bn. HG will be bidding in upcoming two months as awarding from NHAI, MSRDC & Railways is expected to take pace, For FY25E, company is expecting order inflow of Rs80-100bn.
- Guidance on revenue is Rs54bn is intact, for FY25E HG is expecting guidance of Rs60bn in Revenue, & EBITDA margins in HAM projects will be 17-18%, in Highway EPC- 13-14% & in Railways -13-14%.
- HG had signed SPA with Highway Infrastructure Trust backed by KKR in May 23 for 100% Sale of 4 HAM assets at value of Rs13.9bn of which Rs5.3bn is equity. For first tranche of 3 HAM assets all the procedures, lender approvals required for successful closure of first tranche is done, & had received Rs4bn cash in Nov'23, For the 4th HAM project (Rewari Bypass) company is likely to receive Rs1.4bn against the consideration of Rs1.26bn.
- Also for second tranche of 4th SPV, PCOD was declared on 25th May'23 & accordingly company has applied for the issuance of NOC from the party & lenders for the change in shareholding: complete the second tranche by Mar'24.
- Company is planning to diversify in Solar renewable energy sector under Governments Kusum Yojana, HG is aiming some projects, will do this projects in EPC form & will have PPA (Power Purchase agreement) with government. HG is expecting to add Rs1bn from Solar projects from FY25E.
- Company is also looking forward to enter In JJM water projects, Order Prospects In Rajasthan/ MP / & UP are upto Rs150bn from this sector, for FY25E company is expecting to get orders worth Rs5-10bn from this sector.
- Company is planning to diversify in other sectors like Tunneling, Underground Metro, Elevated Metro, etc, for certain projects HG Infra is not qualified so further if any opportunity for big projects, HG will form JV partnership to grab such projects.
- Unbilled revenue in Q3FY24 stood at Rs7bn (NHAI 2.5bn, Adani- 1bn & SPV's – 3.5bn). Retention money/ unbilled revenue/ Mobilization advance stood at Rs1.1bn/ Rs7bn/ Rs3bn on Dec'23. Capex for FY24 is expected to be Rs1bn. And same Capex expected for FY25E is expected at Rs0.75bn. Total debtors stood at Rs8.2bn & Inventory stood at Rs3.4bn.

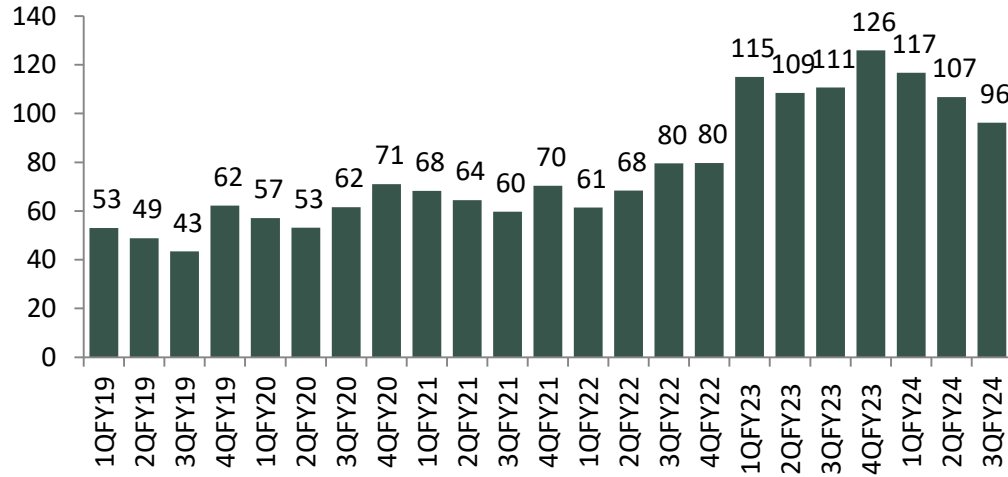
Exhibit 1: Financial snapshot: Quarterly

(Rs mn)

Particulars	Q3FY24	Q3FY23	YoY Chg (%)	Q2FY24	QoQ Chg (%)
Revenue	13,464	11,312	19	8,695	55
Cost of Construction Material Consumed	6,334	5,180	22	3,255	95
Construction Expenses	3,990	3,581	11	3,164	26
Employee benefits expense	776	543	43	648	20
Other Expenses	222	115	93	245	(9)
Expenditure	11,322	9,418	20	7,311	55
EBITDA	2,142	1,893	13	1,384	55
EBITDA Margin (%)	15.9	16.7		15.9	
Other income	25	36	(29)	17	50
Interest	226	161	41	216	5
Depreciation	367	260	41	354	4
PBT	2,642	1,508	75	831	218
Provision for taxation	587	394	49	214	174
Net income	2,055	1,114	84	617	233

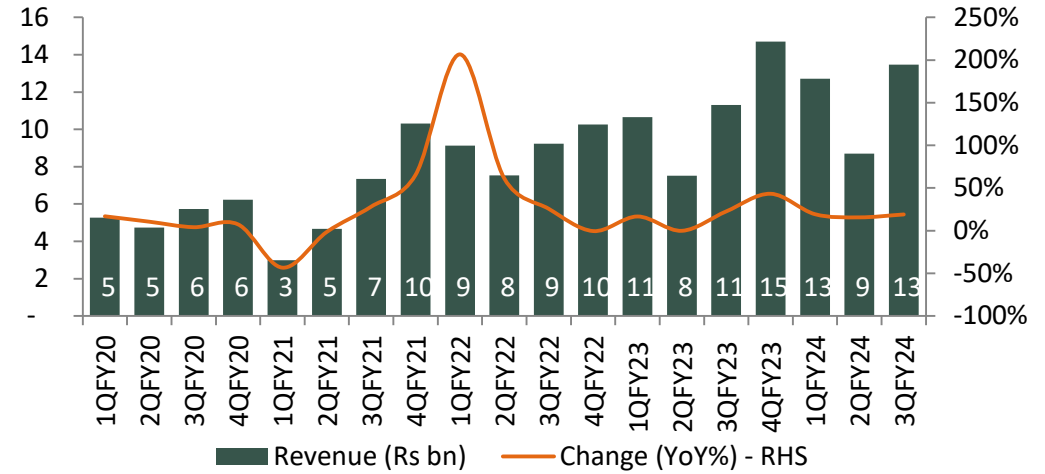
Source: Company; IDBI Capital Research

Exhibit 2: Order book of Rs96bn for Q3FY24, visibility for ~1.5 years



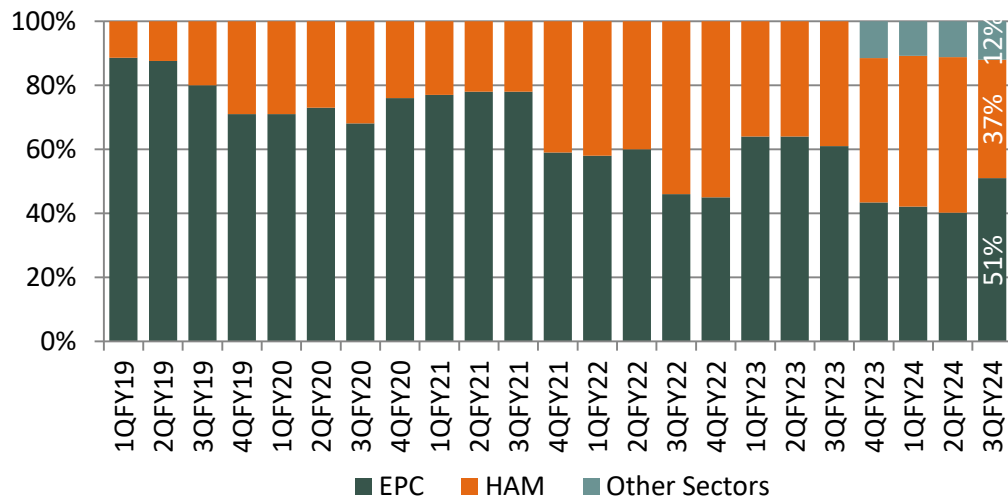
Source : Company

Exhibit 3: Execution up by 19% in Q3FY24



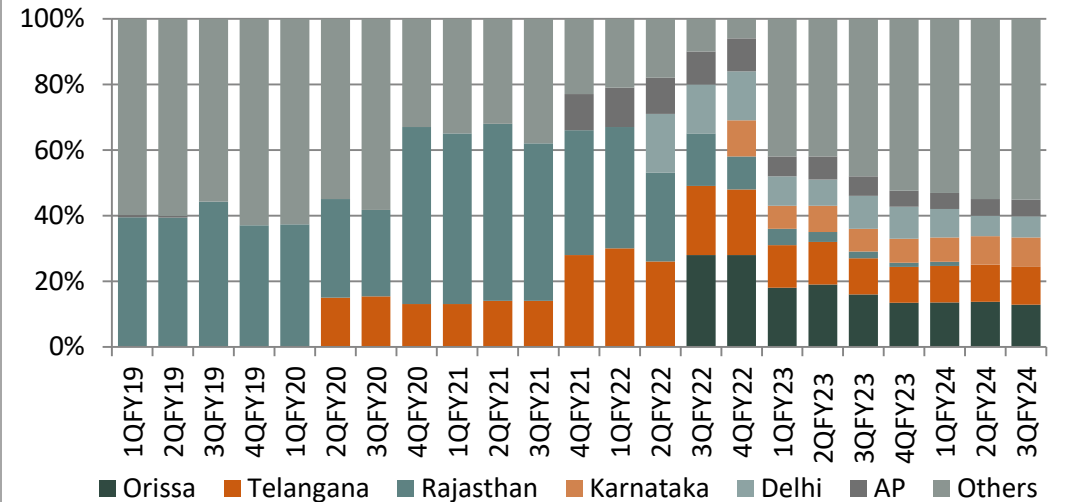
Source : Company

Exhibit 4: Q3FY24 Order book Breakup



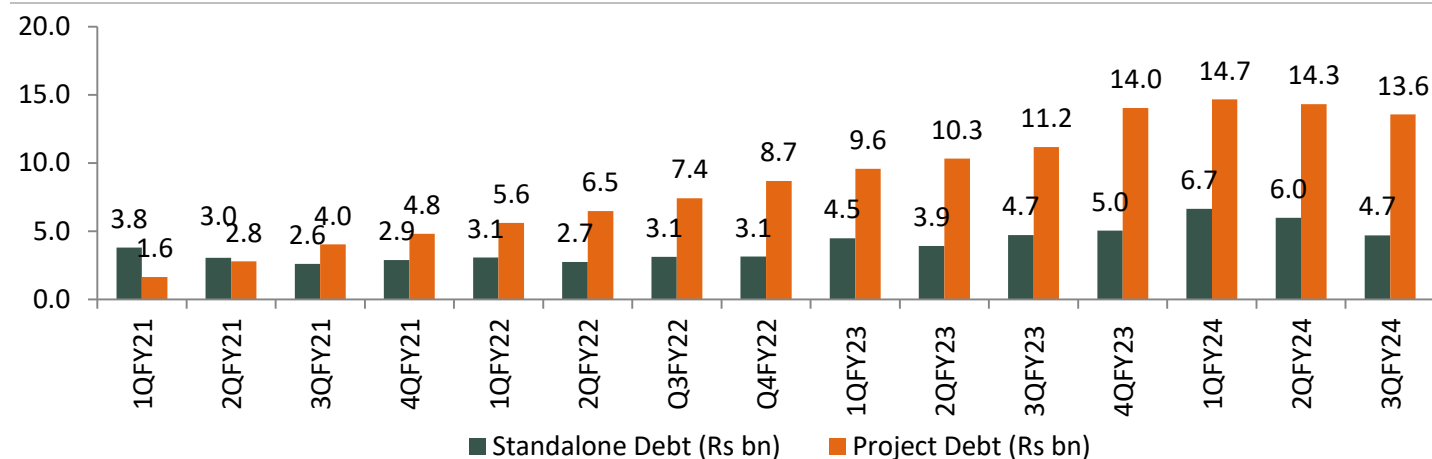
Source : Company

Exhibit 5: Top states by Order book



Source : Company

Exhibit 6: Consolidated debt at Rs18bn as on Q3FY24



Source: Company

Exhibit 7: HG Infra PER SOTP TP

	Year	Valuation		Rs/sh	(%)
		Method	Multiple		
Standalone business	FY26E	PER	10	1,136	92
HAM projects	FY24E	PBV	1	100	8
Total				1,236	100
CMP				959	
Upside (%)					29

Source: IDBI Capital Research, Bloomberg, Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	25,350	36,152	44,185	53,618	64,306	75,032
<i>Change (yoy, %)</i>	15	43	22	21	20	17
Operating expenses	(21,168)	(30,305)	(37,082)	(45,064)	(54,615)	(63,772)
EBITDA	4,181	5,847	7,103	8,554	9,691	11,260
<i>Change (yoy, %)</i>	22	40	21	20	13	16
<i>Margin (%)</i>	16.5	16.2	16.1	16.0	15.1	15.0
Depreciation	(844)	(851)	(963)	(1,151)	(1,239)	(1,314)
EBIT	3,337	4,997	6,140	7,404	8,452	9,946
Interest paid	(596)	(528)	(633)	(619)	(263)	(66)
Other income	80	78	181	100	87	109
Pre-tax profit	2,821	4,546	5,687	6,885	8,276	9,989
Tax	(712)	(1,159)	(1,474)	(1,784)	(2,144)	(2,588)
<i>Effective tax rate (%)</i>	25.2	25.5	25.9	25.9	25.9	25.9
Minority Interest	-	-	-	-	-	-
Net profit	2,110	3,388	4,214	5,101	6,132	7,401
Exceptional items	-	-	-	-	-	-
Adjusted net profit	2,110	3,388	4,214	5,101	6,132	7,401
<i>Change (yoy, %)</i>	27	61	24	21	20	21
EPS	32.4	52.0	64.7	78.3	94.1	113.6
Dividend per sh	-	0.0	1.3	1.5	1.8	2.2
<i>Dividend Payout %</i>	-	0.0	2	2	2	2

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	10,322	13,643	17,784	22,787	28,800	36,058
Share capital	652	652	652	652	652	652
Reserves & surplus	9,670	12,992	17,133	22,135	28,148	35,406
Total Debt	946	1,601	2,377	594	149	37
Other liabilities	863	92	339	511	606	698
Curr Liab & prov	9,675	8,466	14,592	14,678	15,820	17,994
Current liabilities	9,675	8,466	14,592	14,678	15,820	17,994
Provisions	-	-	-	-	-	-
Total liabilities	11,485	10,159	17,308	15,782	16,575	18,729
Total equity & liabilities	21,807	23,802	35,093	38,569	45,375	54,787
Net fixed assets	4,849	4,611	7,066	6,915	6,427	5,863
Investments	2,612	3,545	7,447	6,547	10,147	13,747
Other non-curr assets	304	472	709	669	744	819
Current assets	14,042	15,174	19,870	24,438	28,057	34,358
Inventories	1,680	1,836	2,353	3,380	4,096	4,783
Sundry Debtors	6,534	6,953	8,712	10,572	12,680	14,795
Cash and Bank	2,584	1,585	1,794	2,210	1,270	3,106
Loans and advances	3,243	4,800	7,011	8,276	10,011	11,674
Total assets	21,807	23,802	35,093	38,569	45,375	54,787

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	2,821	4,546	5,687	6,885	8,276	9,989
Depreciation	844	851	963	1,151	1,239	1,314
Tax paid	(685)	(1,104)	(1,571)	(1,784)	(2,144)	(2,588)
Chg in working capital	911	(467)	(2,316)	(2,886)	(2,824)	(2,802)
Other operating activities	1,382	(2,686)	3,107	204	1,100	842
Cash flow from operations (a)	5,273	1,140	5,871	3,570	5,646	6,756
Capital expenditure	(866)	(573)	(3,177)	(1,000)	(750)	(750)
Chg in investments	(1,704)	(933)	(3,902)	900	(3,600)	(3,600)
Other investing activities	(132)	(222)	253	100	87	109
Cash flow from investing (b)	(2,701)	(1,728)	(6,827)	0	(4,263)	(4,241)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(325)	257	1,888	(2,456)	(1,961)	(490)
Dividend (incl. tax)	-	(52)	(65)	(99)	(119)	(143)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(1,088)	(543)	(648)	(619)	(263)	(66)
Cash flow from financing (c)	(1,412)	(338)	1,174	(3,174)	(2,343)	(699)
Net chg in cash (a+b+c)	1,160	(926)	219	396	(960)	1,816

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	158	209	273	350	442	553
Adj EPS (Rs)	32.4	52.0	64.7	78.3	94.1	113.6
Adj EPS growth (%)	27	61	24	21	20	21
EBITDA margin (%)	16.5	16.2	16.1	16.0	15.1	15.0
Pre-tax margin (%)	11.1	12.6	12.9	12.8	12.9	13.3
Net Debt/Equity (x)	-0.2	0.0	0.0	-0.1	0.0	-0.1
ROCE (%)	31	36	34	33	32	30
ROE (%)	23	28	27	25	24	23

DuPont Analysis

Asset turnover (x)	1.2	1.6	1.5	1.5	1.5	1.5
Leverage factor (x)	2.3	1.9	1.9	1.8	1.6	1.5
Net margin (%)	8.3	9.4	9.5	9.5	9.5	9.9

Working Capital & Liquidity ratio

Inventory days	24	19	19	23	23	23
Receivable days	94	70	72	72	72	72
Payable days	71	52	71	62	62	62

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	29.6	18.4	14.8	12.3	10.2	8.4
Price/Book value (x)	6.1	4.6	3.5	2.7	2.2	1.7
EV/Net sales (x)	2.4	1.7	1.4	1.1	1.0	0.8
EV/EBITDA (x)	14.6	10.7	8.9	7.1	6.3	5.3
Dividend Yield (%)	0.0	0.0	0.1	0.2	0.2	0.2

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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