H.G. Infra Engineering — BUY

Diversifying order book

TP	Rs1,790
CMP	**Rs1,554**
Potential upside/downside	15%
Previous Rating	BUY

Key Stock Data	
Bloomberg/Reuters	HGINFRA IN/HGIN.BO
Sector	Infrastructure
Shares o/s (mn)	65
Market cap. (Rs mn)	101,243
3-m daily avg Trd value(Rs mn)	14.6
52-week high / low	Rs1,880 / 806
Sensex / Nifty	79,468 / 24,298

Price Performance (%)	-1m	-3m	-12m
Absolute	(10.2)	33.7	66.6
Rel to Sensex	(9.5)	26.1	45.7

V/s Consensus		
EPS (Rs)	**FY25E**	**FY26E**
IDBI Capital	80	90
Consensus	84	98
% difference	*(4.9)*	*(8.5)*

Shareholding Pattern (%)	
Promoters	74.5
FII	2.0
DII	10.6
Public	12.9

Summary

HG Infra (HGIEL) Q1FY25 operational result (Revenue, EBITDA) came in line to our and consensus estimate. Revenue increased by +18% YoY and EBITDA margin was stable at ~16.2% v/s 16.1% YoY. Order book stood at Rs156bn (2.7x TTM Revenue) & company has guided order inflow of Rs110-120bn for FY25 in roads, railway, water segments. HG is also venturing further more in Solar & Water projects and will bid for larger portfolio going ahead. We maintain BUY rating on the stock with revised TP at Rs1,790 (earlier Rs1,358 as we value HGIEL at 18x in bull case FY26E EPS vs 15x earlier). Recent development & fund allocation of Rs11tn towards infra & construction will drive growth of the company, Stock catalysts remains strong execution & stable order inflow.

Key Highlights and Investment Rationale

- **Q1FY25 snapshot:** In Q1FY25, HGIEL reported revenue which is up by 18% YoY at Rs15bn; Absolute EBITDA in Q4 is higher at +19% YoY, EBITDA margin flat at 16.2% vs. 16.1% YoY, 16.2% QoQ. Order book stood at Rs156bn for Q1FY25 & order inflow stood at Rs35bn.
- **Diversifying in other sectors:** Company's primary focus will be on EPC Highways & Rail EPC projects but going ahead company is taking part in large portfolio of Solar projects as well as planning to submit bids for JJM water & Namammi Gange water treatment projects.
- **Guidance:** Company has guided order inflow of Rs110-120bn of which Rs35bn orders have already been received in Q1FY25, and for revenue company gave guidance of 18-20% growth in FY25. EBITDA margins are expected at 15-16% for the year.

Financial snapshot (Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	36,152	44,185	51,217	59,683	68,736
Change (yoy, %)	*43*	*22*	*16*	*17*	*15*
EBITDA	5,847	7,103	8,219	9,253	10,461
Change (yoy, %)	*40*	*21*	*16*	*13*	*13*
EBITDA Margin(%)	*16.2*	*16.1*	*16.0*	*15.5*	*15.2*
Adj.PAT	3,388	4,214	4,387	5,187	5,874
EPS (Rs)	52	65	67	80	90
Change (yoy, %)	*60.6*	*24.4*	*4*	*18*	*13*
PE(x)	22.7	18.2	17	15	13
Dividend Yield (%)	0.0	0.1	0	0	0
EV/EBITDA (x)	13.1	10.9	9.3	8.6	7.5
RoE (%)	28.3	26.8	21	20	19
RoCE (%)	36.4	34	30	26	24

Source: IDBI Capital Research, Company

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Conference call takeaways

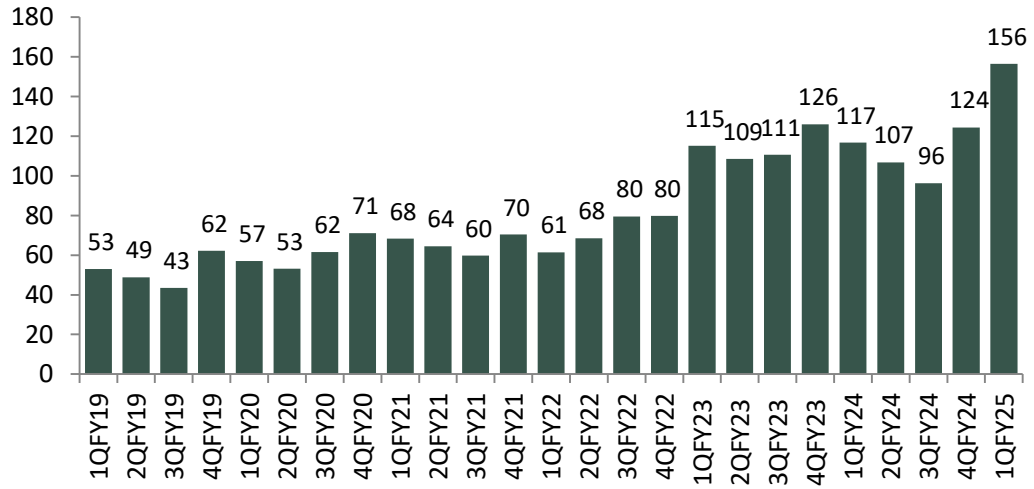
- Management mentioned due to recent allocation of Rs11tn will develop Road & construction projects in India, in addition to that vision 2047 plans to build 30,000 km highways & 50,00kms of high speed corridors which bodes positive for the company.
- Recently company has signed MoU with Ultra Vibrant Solar energy for takeover and development of 116mw dc of KUSUM solar projects. At present all the projects are totaling 700 mw DC and valued at Rs17.6bn. Execution is currently at about 4% and progressing smoothly according to the planned timelines. The total equity requirement for the solar project is estimated as to be Rs60.9bn. Out of this just Rs130 mn has been infused till June'24. Rs3.5bn is estimated to be infused in FY24 FY25 and balance will be in '25 '26.
- On a standalone basis our gross debt totals Rs6.2bn. This includes working capital debt of Rs2.50bn, term loan and current maturities and credit limits amounting to Rs3bn along with the NCD Rs320mn. On a consolidated basis, our gross debt is approximately Rs20bn.
- The total equity requirement for 10 HAM projects is Rs14.6bn. As of June '24. Rs7.2bn has already been infused with a projected infusion of Rs425bn in the remaining nine months of FY25 and balance will be infused in FY26 and '27.
- For Solar Projects company is targeting SPV margins at about 15% equity IRR. And EPC margin of about 18%. Also company will target larger portfolio averaging out into the weighted portfolio of solar part where the infrastructure development would be done by aggregating the land and company would be offering such projects to the companies where they really want that infrastructure readiness and connectivity is available.
- Company guides order inflow of Rs110-120bn of which Rs35bn orders have already been received in Q1FY25, and for revenue company gave guidance of 18-20% growth in FY25.
- Company is trying to explore new projects in Water segment mostly in JJM (Jal Jeevan Mission) also company is aiming some water treatment projects i.e HAM projects which are likely to come in water as well like in Namami Gange treatment plants.

Exhibit 1: Financial snapshot: Quarterly (Rs mn)

Particulars	Q1FY25	Q1FY24	YoY Chg (%)	Q4FY24	QoQ Chg (%)
Revenue	**15,059**	**12,713**	***18***	**16,345**	***(8)***
Cost of Construction Material Consumed	6,749	5,920	*14*	7,124	*(5)*
Construction Expenses	4,918	3,750	*31*	5,652	*(13)*
Employee benefits expense	787	715	*10*	743	*6*
Other Expenses	172	280	*(39)*	180	*(4)*
Expenditure	**12,626**	**10,666**	***18***	**13,699**	***(8)***
EBITDA	**2,433**	**2,048**	***19***	**2,646**	***(8)***
EBITDA Margin (%)	***16.2***	***16.1***		***16.2***	
Other income	32	38	*(16)*	46	*(31)*
Interest	220	173	*28*	195	*13*
Depreciation	348	311	*12*	380	*(8)*
PBT	**1,897**	**1,602**	***18***	**2,117**	***(10)***
Provision for taxation	501	419	*20*	518	*(3)*
Net income	**1,395**	**1,184**	***18***	**1,600**	***(13)***

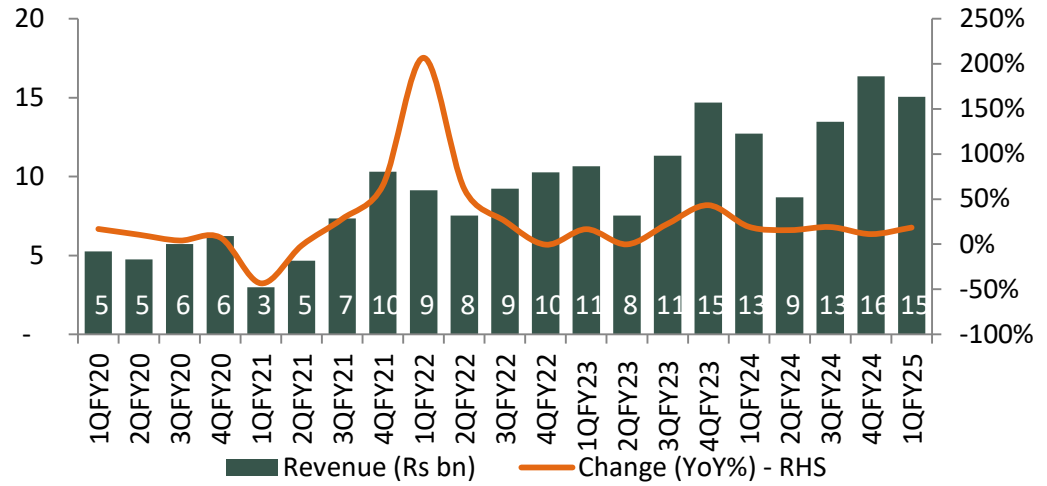
Source: Company; IDBI Capital Research

Exhibit 2: Order book of Rs156bn for Q1FY25, visibility for ~3 years



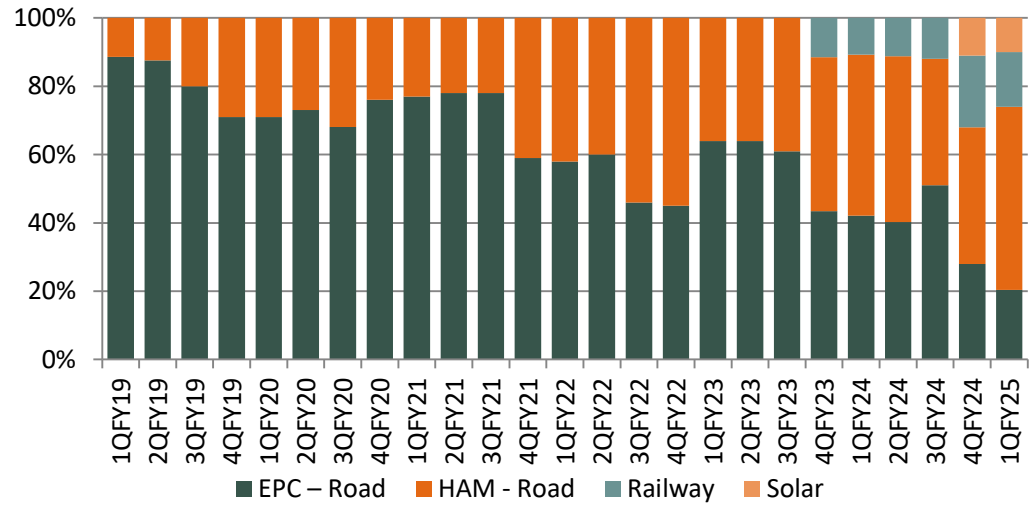
Source : Company

Exhibit 3: Execution up by 18% in Q1FY25



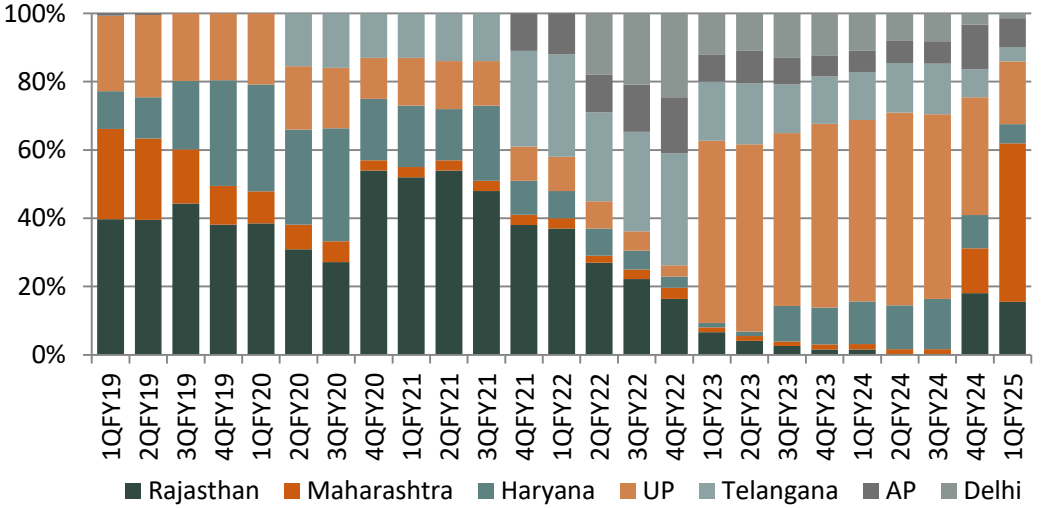
Source : Company

Exhibit 4: Q1FY25 Order book Breakup



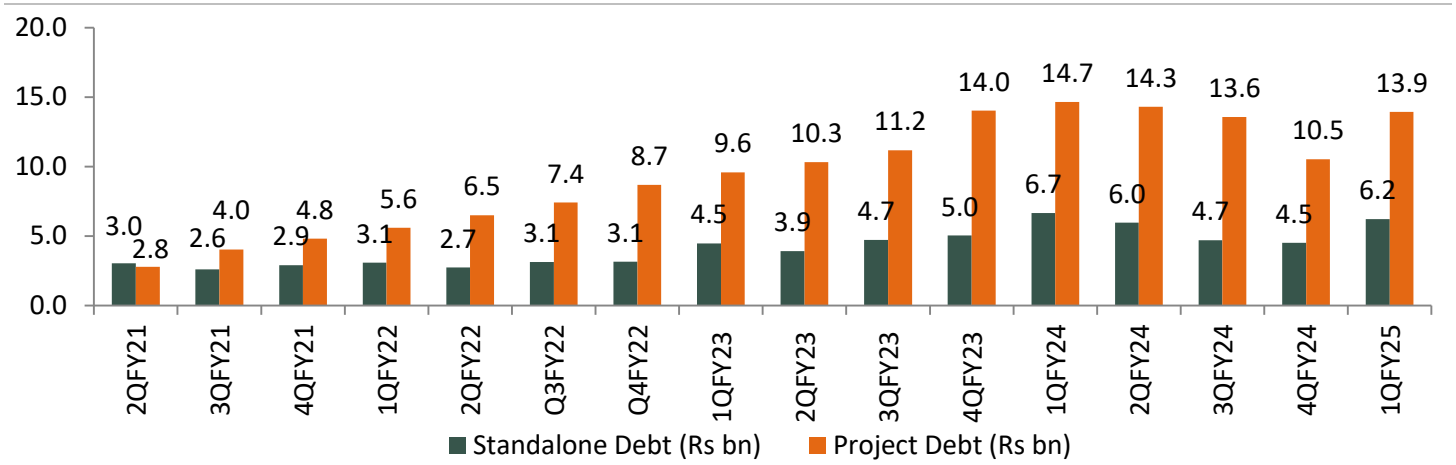
Source : Company

Exhibit 5: Top states by Order book



Source : Company

Exhibit 6: Consolidated debt at Rs14bn as on Q1FY25



Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	**25,350**	**36,152**	**44,185**	**51,217**	**60,927**	**72,719**
Change (yoy, %)	*15*	*43*	*22*	*16*	*19*	*19*
Operating expenses	**(21,168)**	**(30,305)**	**(37,082)**	**(42,998)**	**(51,141)**	**(61,040)**
EBITDA	**4,181**	**5,847**	**7,103**	**8,219**	**9,786**	**11,679**
Change (yoy, %)	*22*	*40*	*21*	*16*	*19*	*19*
Margin (%)	*16.5*	*16.2*	*16.1*	*16.0*	*16.1*	*16.1*
Depreciation	(844)	(851)	(963)	(1,412)	(1,518)	(1,601)
EBIT	**3,337**	**4,997**	**6,140**	**6,808**	**8,267**	**10,078**
Interest paid	(596)	(528)	(633)	(810)	(915)	(1,064)
Other income	80	78	181	126	135	136
Pre-tax profit	**2,821**	**4,546**	**5,687**	**7,191**	**7,488**	**9,150**
Tax	(712)	(1,159)	(1,474)	(1,737)	(1,939)	(2,370)
Effective tax rate (%)	*25.2*	*25.5*	*25.9*	*24.2*	*25.9*	*25.9*
Minority Interest	-	-	-	-	-	-
Net profit	**2,110**	**3,388**	**4,214**	**5,454**	**5,548**	**6,780**
Exceptional items	-	-	-	1,067	-	-
Adjusted net profit	**2,110**	**3,388**	**4,214**	**4,701**	**5,548**	**6,780**
Change (yoy, %)	*27*	*61*	*24*	*12*	*18*	*22*
EPS	32.4	52.0	64.7	67.3	85.1	104.0
Dividend per sh	-	0.0	1.3	1.5	1.6	2.0
Dividend Payout %	*-*	*0.0*	*2*	*2*	*2*	*2*

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	**10,322**	**13,643**	**17,784**	**23,185**	**28,626**	**35,275**
Share capital	652	652	652	652	652	652
Reserves & surplus	9,670	12,992	17,133	22,533	27,974	34,623
Total Debt	**946**	**1,601**	**2,377**	**1,547**	**4,547**	**4,547**
Other liabilities	863	92	339	897	1,044	1,223
Curr Liab & prov	**9,675**	**8,466**	**14,592**	**15,384**	**17,631**	**20,398**
Current liabilities	9,675	8,466	14,592	15,384	17,631	20,398
Provisions	-	-	-	-	-	-
Total liabilities	**11,485**	**10,159**	**17,308**	**17,828**	**23,222**	**26,167**
Total equity & liabilities	**21,807**	**23,802**	**35,093**	**41,013**	**51,848**	**61,443**
Net fixed assets	4,849	4,611	7,066	7,464	6,696	5,845
Investments	2,612	3,545	7,447	6,276	14,076	18,076
Other non-curr assets	304	472	709	1,496	1,797	2,064
Current assets	**14,042**	**15,174**	**19,870**	**25,777**	**29,279**	**35,458**
Inventories	1,680	1,836	2,353	2,967	3,529	4,273
Sundry Debtors	6,534	6,953	8,712	9,138	10,870	13,089
Cash and Bank	2,584	1,585	1,794	1,993	1,390	2,012
Loans and advances	3,243	4,800	7,011	11,680	13,490	16,084
Total assets	**21,807**	**23,802**	**35,093**	**41,013**	**51,848**	**61,443**

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	2,821	4,546	5,687	7,191	7,488	9,150
Depreciation	844	851	963	1,412	1,518	1,601
Tax paid	(685)	(1,104)	(1,571)	(1,931)	(1,939)	(2,370)
Chg in working capital	911	(467)	(2,316)	(1,091)	(2,294)	(2,963)
Other operating activities	1,382	(2,686)	3,107	(1,803)	1,042	993
Cash flow from operations (a)	**5,273**	**1,140**	**5,871**	**2,711**	**5,814**	**6,410**
Capital expenditure	(866)	(573)	(3,177)	(2,051)	(750)	(750)
Chg in investments	(1,704)	(933)	(3,902)	886	(7,800)	(4,000)
Other investing activities	(132)	(222)	253	295	135	136
Cash flow from investing (b)	**(2,701)**	**(1,728)**	**(6,827)**	**(870)**	**(8,415)**	**(4,614)**
Equity raised/(repaid)	-	-	-	1	-	-
Debt raised/(repaid)	(325)	257	1,888	(525)	3,000	-
Dividend (incl. tax)	-	(52)	(65)	(81)	(107)	(131)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(1,088)	(543)	(648)	(851)	(915)	(1,064)
Cash flow from financing (c)	**(1,412)**	**(338)**	**1,174**	**(1,456)**	**1,978**	**(1,195)**
Net chg in cash (a+b+c)	**1,160**	**(926)**	**219**	**385**	**(623)**	**601**

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	158	209	273	356	439	541
Adj EPS (Rs)	*32.4*	*52.0*	*64.7*	*67.3*	*85.1*	*104.0*
Adj EPS growth (%)	*27*	*61*	*24*	*4*	*26*	*22*
EBITDA margin (%)	*16.5*	*16.2*	*16.1*	*16.0*	*16.1*	*16.1*
Pre-tax margin (%)	*11.1*	*12.6*	*12.9*	*14.0*	*12.3*	*12.6*
Net Debt/Equity (x)	*-0.2*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*
ROCE (%)	*31*	*36*	*34*	*30*	*28*	*27*
ROE (%)	*23*	*28*	*27*	*21*	*21*	*21*
DuPont Analysis						
Asset turnover (x)	1.2	1.6	1.5	1.3	1.3	1.3
Leverage factor (x)	2.3	1.9	1.9	1.9	1.8	1.8
Net margin (%)	*8.3*	*9.4*	*9.5*	*8.6*	*9.1*	*9.3*
Working Capital & Liquidity ratio						
Inventory days	24	19	19	21	21	21
Receivable days	94	70	72	65	65	66
Payable days	71	52	71	71	71	71

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	48.0	29.9	24.0	23.1	18.2	14.9
Price/Book value (x)	9.8	7.4	5.7	4.4	3.5	2.9
EV/Net sales (x)	3.9	2.8	2.3	2.0	1.7	1.4
EV/EBITDA (x)	23.8	17.3	14.3	12.3	10.7	8.9
Dividend Yield (%)	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*

Source: Company; IDBI Capital Research

Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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