



One Stop Investment Avenue



Initiating Coverage

HG INFRA ENGINEERING LTD

Small in Size Large in Aspirations



Equity | India | Infrastructure

08-Apr-2022

Date: 08-Apr-2022

Market Info (as on April 07, 2022)

BSE Sensex	59,034
Nifty S&P	17,639

Stock Detail

BSE Group	A
BSE Code	541019
NSE Code	HGINFRA
Bloomberg Code	HGINFRA:IN
Market Cap (INR Cr.)	4,101
Free Float (%)	25%
52wk Hi/Lo	831 / 252
Avg. 20 Day Volume (NSE)	1,29,025
Face Value (INR)/ D. Yield (%)	10 / 0.14
Total Paid Up Eq. Shares (Mn.)	65.17

Promoters	Public	Others
74.53	25.47	—

Financial Snapshot

Y/E Mar	FY21	FY22E	FY23E	FY24E
Net Sales	2602	3383	3857	4666
EBITDA	476	626	675	840
PAT	237	333	344	429
EPS	36.3	51.2	52.8	65.9
ROE (%)	25%	24%	20%	20%
ROCE (%)	29%	26%	23%	23%
P/E	10.5	12.3	11.9	9.5
EV/EBITDA	10.3	7.8	7.2	5.8

Share Price Performance



Rel. Perf.	1Mth	3 Mths	6Mths	1Yr
HGINFRA (%)	18.4	4.1	(9.5)	115
Sensex (%)	10.4	(0.6)	0.36	19.6

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Summary

We Initiate Coverage on H.G. Infra Engineering Ltd (hereafter 'HGIL') with a 'BUY' rating and target Price of INR 898 implying 43% upside. HGIL is an Infrastructure player based out of Rajasthan lead by Mr. Harendra Singh, CMD. Company has successfully scaled up its operations with order book of INR 1257 Cr in FY16 to INR 8794 Cr (latest) (38% CAGR) and revenue grew from INR 712 Cr (FY16). to INR 3731 Cr. (TTM) implies CAGR of 32%. While growing with aforesaid metrics, It has managed to achieve one of the best in class operational parameters such as 3 yr. Avg. Cash Conversion cycle of 36 days.

Profit after tax of Rs 562 cr. crore is estimated for FY25E. We Applied a PE (x) multiple of 10.4(x) (3 yr. Avg.) and arrive at a market Capitalization of Rs. 5844 cr. (current Market Capitalization Rs 4104 cr).

Investment Rationale

Sustainable Higher Growth of NH Work in Overall Road Construction

India's National Highway (NH) and expressway's Share in Total Road construction is improved from 1.6% in 2012 to 2.1% as on 2019(P), the NH construction growth was largely in double digits since 2014, and remains accelerated compared with other category (SH, Rural Roads, Urban road, Project Road). China with Higher population than India has 0.37 Mn Km network of NH out of 5.2 Mn KM road network as of 2020. India represents 2.11% of NH of total network (2019) against 7.1% in china (2020). This provides indication of sustainable growth trend in NH in India.

Revenue Visibility aided by Robust Order Book

HGIL has INR 8794.3 Cr. Works in hand as of Mar-22, which is 2.35 (x) of TTM top line. Company has successfully scaled up its operations with order book of INR 1257 Cr in FY16 to INR 8794 Cr (latest) (38% CAGR) and revenue grew from INR 712 Cr. to INR 3731 Cr. (TTM) implies CAGR of 32%. With latest order book in hand, it has achieved an all time for highest Order book flow in its history. We believe the order book to grow at 25% over FY23E-25E.

Healthy Balance Sheet to Cater Growth

HGIL's Balance Sheet remains Un-stretched, this opens up ways to serve any upcoming opportunity for it. While maintaining strong Company's trade receivables forming 21% of total asset (FY21), down from 38% in FY19 and it hold 10% cash and cash equivalent (FY21), up from 6% in FY19. This has helped to keep working capital in check. 40% funding of its capital is funded by Equity, whereas Long and Short term borrowing are forming 25% of balance sheet.

Diversification

Company has proven track record of completing EPC and HAM road projects, currently it is mainly focused on the same. In AR 21, Management has outlined "Diversification" program and indicated that HGIL to look at opportunities a) railways, b) metro and c) airports to diversify the order book. Hence possibility of sharp growth due to diversification in order book cannot be ruled out.

Company Profile

HG Infra Engineering is an infrastructure construction, development and management company based in Rajasthan. It has extensive experience in its focus area of road projects, including highways, bridges and flyovers. The company's main business operations include providing engineering, procurement and construction (EPC) services on a fixed-sum turnkey basis and undertaking civil construction and related infrastructure projects on item rate and lump sum basis, primarily in the roads and highway sector. It also undertakes projects based on Hybrid Annuity Model.

- Incorporation year: 2003
- Chairman: Mr. Harendra Singh
- Managing Director: Mr. Harendra Singh
- Company Secretary: Mrs. Ankita Mehta
- Head Office: Jodhpur, Rajasthan, India
- No. of Employees: 1965
- Auditor: Price Waterhouse & Co Chartered Accountants LLP

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KEY TRIGGERS FOR H.G. INFRA ENGINEERING LTD

1. ROAD & HIGHWAYS CONSTRUCTION: GROWTH LIES AHEAD

India has Second largest Road Network India. The total road network of 6.3 Mn KM Comprising National Highways, State Highways, Urban Roads, Rural Roads and Project Roads. Interestingly, National Highways which represents major portion freight, Good transport is comprising of just 2.1% of the total road network in India, Whereas NH contribution is significant in china accounting for 7.1% out of total road network. The pace of NH Construction in India indicating growth where NH construction has remained largely in double digits since 2014.

Road transport is the most preferred mode of transport in the country for both freight and passengers. In a country such as India, a robust road network becomes the lifeline as it is pivotal for the smooth functioning of not just the economic activities but also for social integration of the country. A good road network offers last-mile connectivity for transportation of goods and passengers, accessibility to schools and hospitals, and opens avenues of trade in the least developed regions.

2. RISING SHARE OF NATIONAL HIGHWAYS TO BENIFT ORGANIZED PLAYERS

National Highways share stood 2.1% in 2019 as compared to 1.6% in 2012. India's focus majorly was on building Rural connectivity. The rural roads now contributes 71% (2019) compared to 58% in (2012), this implies rural road connectivity is optimized and aggressive growth of construction can be achieved by focusing on building Highways infrastructure. Projects such as national highway and expressways are generally large in contract value, involves prerequisite of network and demand robust working capital capacities, which in turns easily available to organized players. This creates hurdles for aggressive bidder in unorganized space. Hence HGIL to benefit from the higher growth in national highways construction.

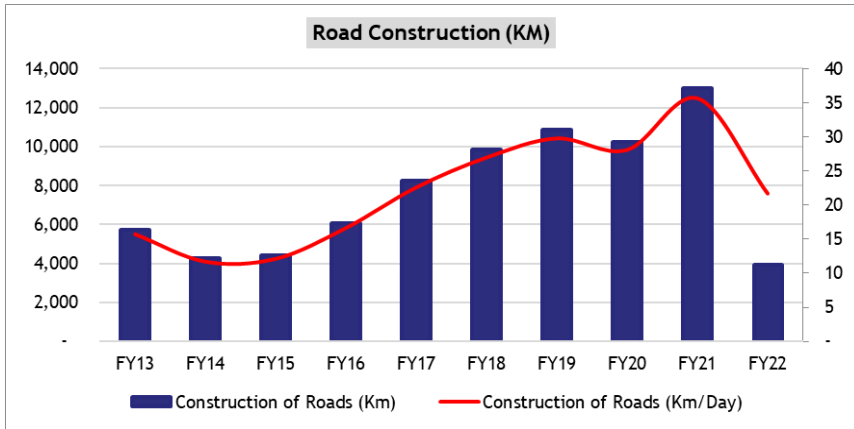
3. REVENUE VISIBILITY FOR HGIL

Company has INR 8794.3 Cr. Works in had as of Mar-22, which is 2.35 (x) of TTM top line., provides better revenue visibility. As of now its order book is dependent on Road projects and management have plans to diversify order book into a) Rail Track Laying b) Metro Projects c) Airports Etc. We believe along with sufficient current order book, HGIL could surprise with newer order book from its aforementioned diversification plans. Historically, Company has successfully scaled up its operations with order book of INR 1257 Cr in FY16 to INR 8794 Cr (latest) (38% CAGR) and revenue grew from INR 712 Cr. to INR 3731 Cr. (TTM) implies CAGR of 32%. With latest order book in hand, it has achieved an all time for highest Order book flow in its history. We believe the order book to grow at 25% over FY23E-25E.

3. BALANCED ORDER BOOK MIX

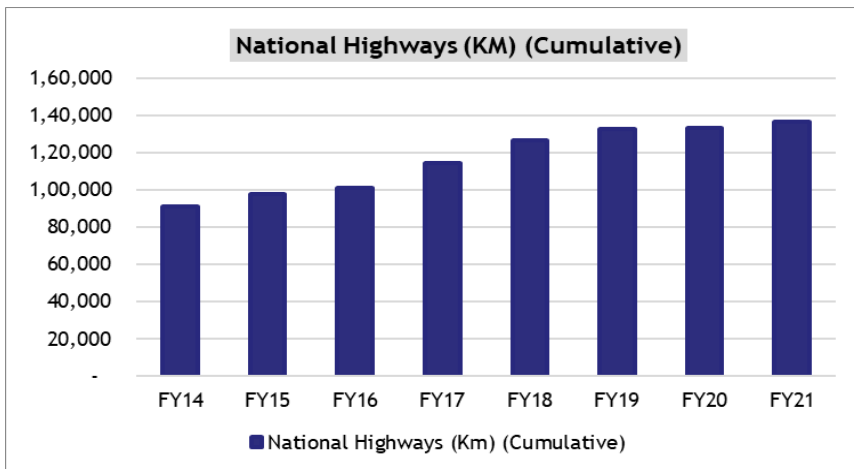
As of march-22, Hybrid Annuity Model (HAM) projects constitutes 54% of its order book, whereas EPC contributes 46%. HAM projects are better than EPC in terms of Funds Availability, Clause flexibility Etc. Government projects (comprise of NHAI, MORTH) contributing 90% of order book and 10% from private sector. It also well diversified in geographical terms, Telangana contributes 21%, Rajasthan 16%, Orrisa 28%, Delhi 15%, AP 10%, Haryana 4%, UP 4%, Maharashtra 2%. The 54% HAM project contributions in order book to aid ease in working capital, Finance availability etc. thus Robustness of FY21 Balance Sheet is ensured to remain stable ahead. HGIL with its proven financial discipline, continues to focus on Projects desirable EBITDA margins and IRR.

INDIA'S ROAD CONSTRUCTION STORY IN CHARTS



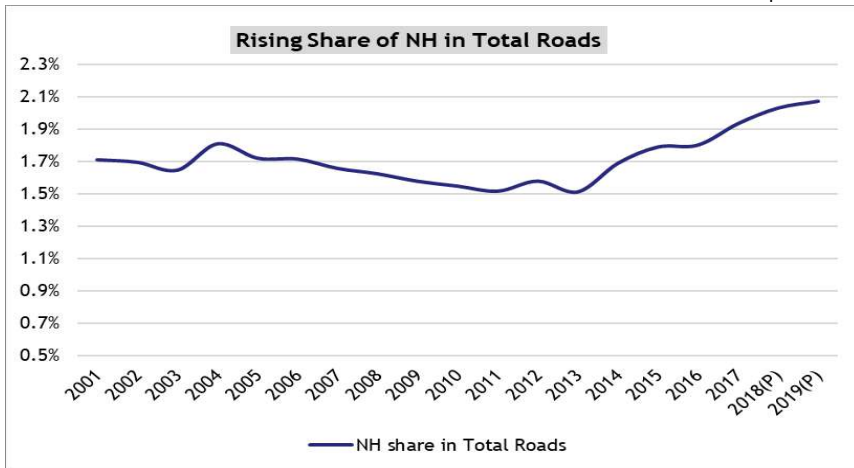
Source: Economic Survey 2022, *FY22 as of 30-09-21

- Pace of Road construction increased from 12 km per day in 2014-15 to 37 km per day in 2020-21 (more than 3 times growth)

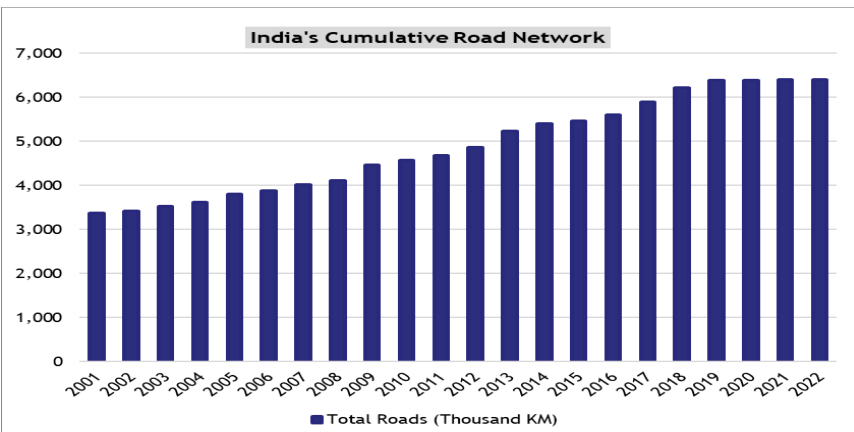


Source: NHAI Annual Report FY21

- National Highways network improved from 91,287 Km in FY14 to 1,36,440 Km in FY21.
- National Highway construction grew 50% from FY14 levels Vs. Total Road length growth of 18%.



- National Highway's Share in total road network registered sharp growth.
- NH share improved from 1.5% in 2014 to 2.1% as of 2019. suggesting higher activities in NH space.



- Economic growth directly linked to the Roads Networks.
- India's total road network now ranked second in world with improvement from 4.8 Mn Km in 2014 to 6.4 Mn in 2022 (as of 30-Sep-22)

INDIA'S ROAD NETWORK

A) Total Cumulative Road Network-Category Wise

Year	NH	SH	District Road	Rural Road	Urban Road	Project Road	Total Roads (In '000 KM)
2001	58	132	736	1,972	252	224	3,374
2002	58	138	695	2,061	250	224	3,427
2003	58	135	697	2,082	297	259	3,529
2004	66	133	719	2,141	301	262	3,622
2005	66	144	786	2,266	287	260	3,809
2006	67	148	804	2,308	292	262	3,881
2007	67	152	835	2,393	301	269	4,016
2008	67	155	863	2,451	304	270	4,110
2009	71	158	963	2,629	374	277	4,472
2010	71	160	977	2,693	402	279	4,582
2011	71	164	999	2,750	412	282	4,677
2012	77	164	1,022	2,838	464	299	4,865
2013	79	169	1,067	3,160	446	311	5,232
2014	91	171	1,082	3,304	457	296	5,402
2015	98	167	1,101	3,337	467	302	5,472
2016	101	176	562	3,935	510	319	5,603
2017	114	175	586	4,167	526	329	5,898
2018	126	187	611	4,410	534	348	6,216
2019	133	187	632	4,536	545	355	6,386

Source: AR FY21, MoRTH

B) Share of Each Road Category Out of Total

Year	NH	SH	District Road	Rural Road	Urban Road	Project Road	Total
2001	1.7%	3.9%	22%	58%	7%	7%	100%
2002	1.7%	4.0%	20%	60%	7%	7%	100%
2003	1.6%	3.8%	20%	59%	8%	7%	100%
2004	1.8%	3.7%	20%	59%	8%	7%	100%
2005	1.7%	3.8%	21%	59%	8%	7%	100%
2006	1.7%	3.8%	21%	59%	8%	7%	100%
2007	1.7%	3.8%	21%	60%	7%	7%	100%
2008	1.6%	3.8%	21%	60%	7%	7%	100%
2009	1.6%	3.5%	22%	59%	8%	6%	100%
2010	1.5%	3.5%	21%	59%	9%	6%	100%
2011	1.5%	3.5%	21%	59%	9%	6%	100%
2012	1.6%	3.4%	21%	58%	10%	6%	100%
2013	1.5%	3.2%	20%	60%	9%	6%	100%
2014	1.7%	3.2%	20%	61%	8%	5%	100%
2015	1.8%	3.1%	20%	61%	9%	6%	100%
2016	1.8%	3.1%	10%	70%	9%	6%	100%
2017	1.9%	3.0%	10%	71%	9%	6%	100%
2018(P)	2.0%	3.0%	10%	71%	9%	6%	100%
2019(P)	2.1%	2.9%	10%	71%	9%	6%	100%

Source: AR FY21, MoRTH

C) YoY Growth in Each Road Category

Year	NH	SH	District Road	Rural Road	Urban Road	Project Road	Total
2001							
2002	0.6%	4.2%	-5.5%	4.5%	-0.7%	0.2%	2%
2003	0.0%	-2.1%	0.2%	1.0%	18.8%	15.7%	3%
2004	12.8%	-1.2%	3.2%	2.8%	1.4%	0.9%	3%
2005	0.0%	8.4%	9.3%	5.9%	-4.8%	-0.7%	5%
2006	1.6%	2.6%	2.2%	1.8%	1.8%	0.9%	2%
2007	0.0%	2.8%	3.9%	3.7%	2.9%	2.4%	3%
2008	0.2%	1.5%	3.4%	2.4%	1.2%	0.6%	2%
2009	5.7%	2.6%	11.5%	7.3%	22.8%	2.4%	9%
2010	0.5%	1.1%	1.5%	2.4%	7.7%	0.8%	2%
2011	0.0%	2.3%	2.2%	2.1%	2.3%	1.0%	2%
2012	8.3%	0.3%	2.3%	3.2%	12.8%	6.3%	4%
2013	3.0%	3.0%	4.3%	11.3%	-3.9%	3.9%	8%
2014	15.4%	0.9%	1.5%	4.6%	2.5%	-4.7%	3%
2015	7.3%	-2.2%	1.7%	1.0%	2.1%	1.8%	1%
2016	3.1%	5.4%	-49.0%	17.9%	9.1%	5.8%	2%
2017	13.0%	-0.6%	4.3%	5.9%	3.3%	3.1%	5%
2018(P)	10.7%	6.8%	4.3%	5.8%	1.5%	5.7%	5%
2019(P)	4.9%	-0.2%	3.4%	2.9%	2.0%	2.1%	3%

Source: AR FY21, MoRTH

RURAL ROADS CONTRIBUTION IS 71%, TIME TO REVAMP N.H. AND S.H. SHARE

Rural roads share improved from 58% in 2001 to 71% in 2019, hence rural roads account for major portion of India road Network. In above mentioned data, NH are growing at faster pace than any other road category, this will help to improve its share in overall network.

ROAD SECTOR REMAIN IN FOCUS IN 'NIP'

Sectors	FY20	FY21	FY22	FY23	FY24	FY25	No Phased	Total	% of Total
Energy	1,73,231	3,35,360	3,21,653	3,26,351	3,46,359	3,25,005	6,26,290	24,54,249	24%
Roads	3,24,426	3,69,700	3,43,791	2,36,850	2,29,446	3,24,915	1,34,815	19,63,943	19%
Railways	1,33,232	2,62,510	3,09,360	2,74,181	2,21,369	1,67,870		13,68,522	13%
Ports	12,067	16,128	18,755	15,273	7,134	9,251	22,314	1,00,922	1%
Airports	18,827	21,655	24,780	21,294	25,346	5,041	26,445	1,43,388	1%
Urban	2,94,775	4,13,513	3,26,875	1,61,464	1,46,213	1,09,017	1,77,155	16,29,012	16%
Irrigation	1,01,688	1,69,379	1,57,739	1,07,645	92,502	64,221	79,504	7,72,678	8%
Rural Infra.	1,39,755	1,77,011	2,10,660	1,11,230	1,07,055	27,055		7,72,766	8%
Digital Infra.	83,891	63,833	55,365	39,577	38,977	38,855		3,20,498	3%
Agri. Process.	8,949	8,163	7,409	5,934	5,633	5,374	14,092	55,554	1%
Social Infra.	55,454	72,441	76,774	46,360	35,433	18,907		3,05,369	3%
Industrial Infra.	17,236	40,694	42,897	34,169	22,774	10,336	1,39,306	3,07,412	3%
Total	13,63,531	19,50,387	18,96,058	13,80,328	12,78,241	11,05,847	12,19,921	1,01,94,313	100%
% of Total	13%	19%	19%	14%	13%	11%	12%	100%	(INR Cr)

NATIONAL INFRASTRUCTURE PIPELINE (NIP)

It is a signature project of the Indian Govt. to develop world class infrastructure in India. This mega project is worth Rs 100 lakh Cr. With the inclusion of all the major sector. NIP outlined plans to invest Rs 102 lakh Cr. on infrastructure projects by 2024-25, with the Centre, States and the private sector to share the capital expenditure in a 39:39:22 formula. To achieve \$5 trillion economy of India, the infrastructure is a important pivot. A fast paced economy needs a well connected, established infrastructure for swift good and services transport. The need for connected and established infrastructure across all sectors is the main driver for the India. FY 20-FY25 is the execution period of the National Infrastructure Pipeline.

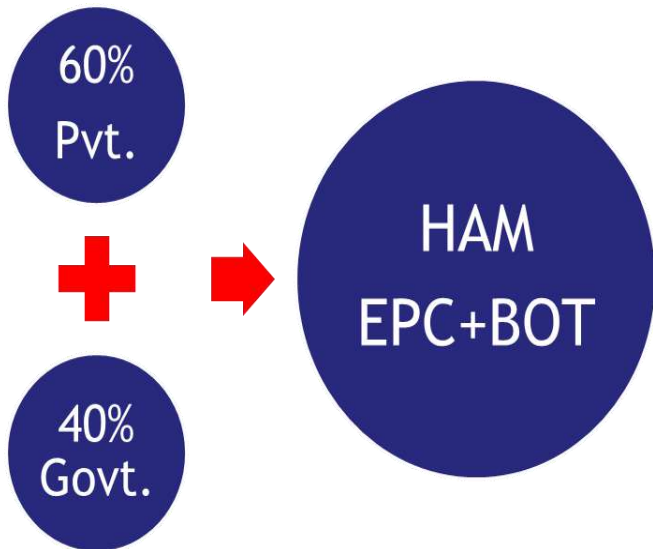
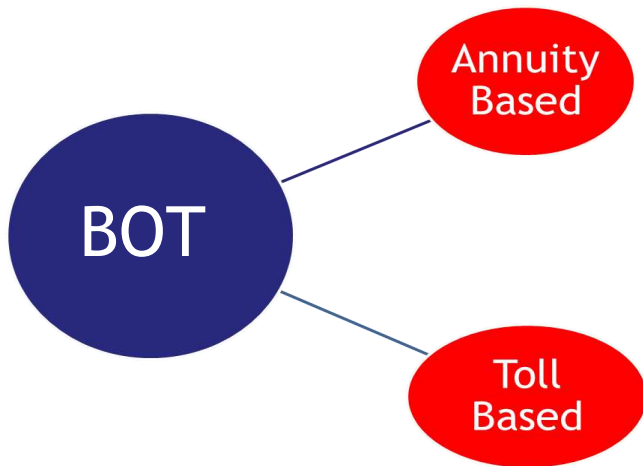
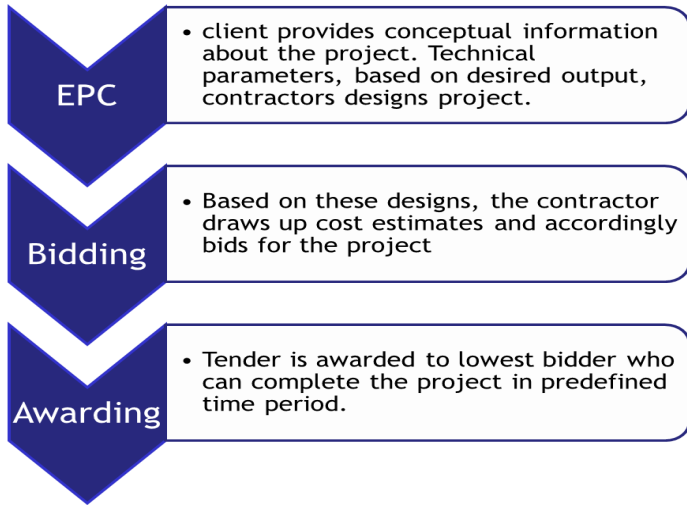
CURRENT STATUS OF INDIAN ROADS

According to national Infrastructure pipeline (NIP) task force report, India's National Highways (NH) comprises total length ~1.32 lakh km with including expressways of ~1,600 km. private sector has ~15% participation in national highways. the cash collection has resulted into leakages in revenue realization, with congestion generation at toll plazas. India has "Flat Toll Fee" irrespective of actual distance travelled. Highway and expressways are lacking with traffic management, surveillance, automated fare collection systems.

GORVERMENT'S ROAD MAP FOR 2025:

Govt to form major economic corridors and to focus on higher share of private sector. Recently Govt of India made 'Fastag' compulsory. This will result in boost of Digital Toll collection curbing the revenue leakages in the process. Thereby better revenue realization. Govt to implement Deeper penetration of advanced technologies such as automated traffic controllers for improved safety, security and traffic management, LIDAR guns, speed regulators, digital message boards.

FUNDING MODELS FOR CONTRACTORS



1. ENGINEERING, PROCUREMENT AND CONSTRUCTION (EPC)

An “Engineering, Procurement and Construction” or short EPC-Project is a particular form of contracting arrangement used in Construction segments, where the EPC-Contractor is made responsible for all activities from design, procurement, construction, to commissioning and handover of the deliverables to the Owner or Operator. However it has some drawbacks such as Limited project changes by owner including design changes. Limited risk transfer due to liability limitations as per contract. The rigid clauses may also result in increasing probability of contractors claim to relieve risk transfer.

2. BUILD OPERATE AND TRANSFER (BOT)

A build-operate-transfer (BOT) contract is a model used to finance large projects, typically infrastructure projects developed through public-private partnerships. Under a build-operate-transfer (BOT) contract, an entity—usually a government—grants a concession to a private company to finance, build and operate a project for a period of 20-30 years. After that period, the project is returned to the public entity that originally granted the concession. It has two types as follows: a) In Annuity model the Revenue risk transferred to Authority, Concessionaire to get Fixed b) In Toll based BOT the revenue risk in on Concessionaire, revenue Collected in Toll form.

2. HYBRID ANNUITY MODEL (HAM)

The MoRTH introduced the HAM model in June 2015. HAM is a new public-private partnership (PPP) framework in which 40% of the project cost is funded by the government, while the balance is arranged by the developer through a debt-equity mix. Upon completion of construction, the government will make thirty semi-annual payments to the developer. The government shoulders the responsibility of revenue collection (by toll). The government will then pay the fixed amount of annuity annually to the private player for the defined period (10 or 20 years) as per the contract. The government will select that private player (in competitive bidding) who asks for minimum annuity from the government. HAM is a win-win situation for both private players and government. The government has reduced responsibility for arranging for cost of project (only 40%, while in EPC it was 100%). The private player has to arrange for only 60% of project cost (in BOT- ANNUITY, it was 100%, unless government gives viability gap funding, so risk for private sector is minimal in HAM projects.

EVOLUTION OF COMPANY AND ORDER BOOK

JOURNEY OF THE COMPANY

In the span of 14 years, HGIL has successfully expanded its operations from a small PWD construction operator to a High value road and EPC contractor for expressways & highways. Further it also has improved its EBITDA Margin from 13.8% in FY12 to 16.2% in FY21, on account of tight control over operating cost. With this journey now it also planning to diversify into railway track laying, Airport runways construction and Metro.

Evolution Phases	Phase 1: 2008-12	Phase 1: 2013-17	Phase 1: 2018-21
Particulars	Subcontractor With Major experience in 1 state	Upcoming prime Contractor , Started contracts with NHAI	Leading Road Developer with PAN India Presence
Capabilities	PWD/ Civil Construction	Highways/ Expressways	High value Road EPC & HAM
Revenue as Prime Contractor	~25%	~50%	~75%
EPC PQ	~INR 500 Mn	~INR 15000 Mn	~INR 28000 Mn
Geographies Served	2 States	6 States	8 States
Revenue	INR 2,872 Mn (FY12)	INR 10,560 Mn (FY17)	INR 25,275 (FY21)
EBITDA Margin	13.8% (FY12)	12% (FY17)	16.2% (FY21)
PAT	INR 132 Mn (FY12)	INR 534 Mn (FY 17)	INR 2110 Mn (FY 21)
Gross Block	INR 1193 Mn (FY12)	INR 2294 Mn (FY 17)	INR 7602 Mn (FY 21)
Debt/ Equity	1.75x (FY12)	1.16x (FY 17)	0.28x (FY 21)

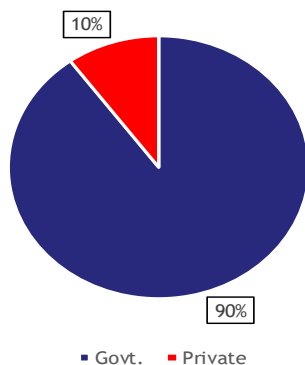
INR 8,794 CR. WORTH ORDER BOOK

Company has order book from reputed authority like National highway authority of India (NHAI), Ministry of Road and highways transport (MoRTH) with mix of Private players.

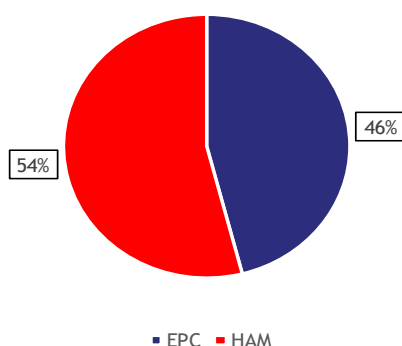
Sr No	Project Name	Authority	Status	Completion As of 31st Dec-2022	Unexecuted Value (Rs Cr)
1	Karala-Kanjhawala UER	NHAI	Under Execution	1%	1231
2	Delhi Vadodara Pkg-9	NHAI	Under Execution	42%	679.7
3	Mancherial - Repallewa	Adani	Under Execution	45%	514.3
4	Delhi Vadodara Pkg-8	NHAI	Under Execution	59%	338.2
5	Hapur Morradabad	IRB-MRM	Under Execution	63%	319.7
6	Rewari Bypass Pkg-4	NHAI	Under Execution	45%	221
7	MoRTH Projects (MH)	MoRTH	Under Execution	91%	136.3
8	Rewari Ateli Mandi	NHAI	Under Execution	89%	52.8
9	Narnual Bypass	NHAI	Under Execution	97%	26.6
10	Delhi Vadodara Pkg-4	NHAI	Under Execution	95%	44.7
11	Rajasthan Project (World Bank funded)	PWD	Under Execution	88%	73.5
12	Gurgaon-Sohna (Rajiv chowk)	NHAI	Under Execution	97%	17.1
13	Raipur-Visakhapatnam AP-1	NHAI	New Awarded	A.D. Awaited	807.9
14	Khammam-Devarapalle Pkg-1	NHAI	New Awarded	A.D. Awaited	609.1
15	Khammam-Devarapalle Pkg-2	NHAI	New Awarded	A.D. Awaited	504.4
16	Raipur-Visakhapatnam OD-5	NHAI	New Awarded	A.D. Awaited	1284.8
17	Raipur-Visakhapatnam OD-6	NHAI	New Awarded	A.D. Awaited	954.9
18	Neelmangala-Tumkur	NHAI	New Awarded	A.D. Awaited	844.1
19	Others				134.2
Grand Total					8794.3

ORDER BOOK TYPE AND HAM PROJECT STATUS

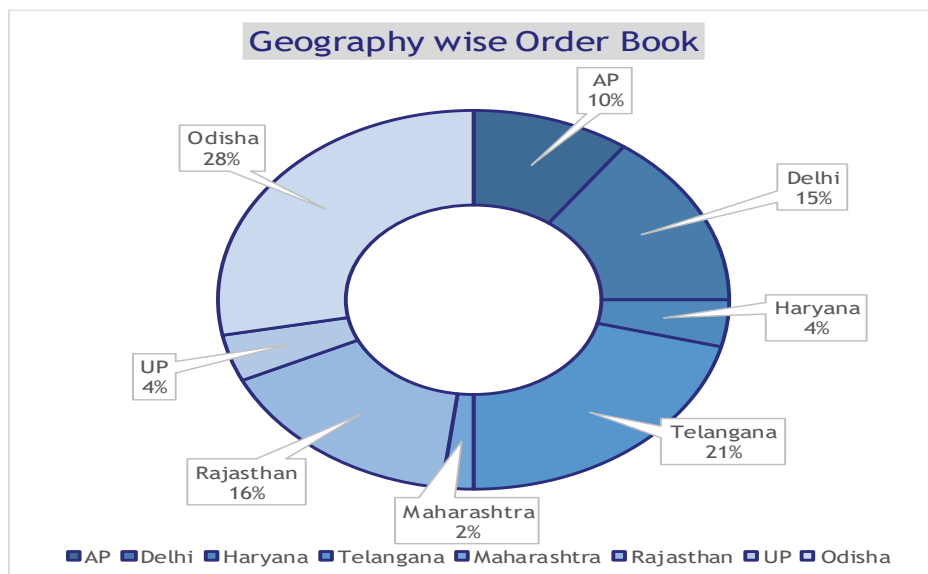
Client Type



Project Type



Geography wise Order Book



ORDER BOOK TYPE

Company has pan India presence with its diversified order book, Odisha contribute highest with 28%, followed by Telangana 21% and Rajasthan 16%. Hybrid Annuity Model comprises 54% of Oder book whereas EPC project contributes 46%. Govt. projects forms 90% , As order book largely comprises projects associated with NHAI and MoRTH. Private client forms 10% of total order book.

HAM PROJECTS

Below mentioned table is of HAM projects of HGIL. In HAM projects, Govt. contributes 40% funding and rest is arranged by contractor.

Project	Awarding Authority	State	Kms Lanes	Bid Cost (INR Mn)	Grant Amount (INR Mn)	Total Debt (INR Mn)	Invested Equity (INR Mn)	Debt As on 31-12-21 (INR Mn)	Physical Progress (31-12-21)%
Gurgaon-Sohna (Rajiv chowk)	NHAI	Haryana	12.7	6,060	2,424	2,879	656	2,499	98%
Rewari Ateli Mandi	NHAI	Haryana	30.4	5,750	2,300	2,270	637	1,790	94%
Narnaul Bypass	NHAI	Haryana	40.8	9,521	3,808	4,060	1,183	2,620	96%
Rewari Bypass Pkg-4	NHAI	Haryana	14.4	5,220	2,088	2,200	414	550	37%
Khammam Devarapalle Pkg-1	NHAI	Telangana	33.6	7,721	3,088	3,100	2	-	-
Khammam Devarapalle Pkg-2	NHAI	Telangana	29.5	6,371	2,548	2,560	2	-	-
Raipur Visakhapatnam AP-1	NHAI	Andhra Pradesh	31.8	10,601	4,240	4,520	2	-	-
Raipur Visakhapatnam OD-5	NHAI	Odisha	44	14,921	5,968	6,670	2	-	-
Raipur Visakhapatnam OD-6	NHAI	Odisha	45.5	11,231	4,492	5,550	2	-	-

PROJECTS STATUS

Land Availability for its major projects stand between 70% to 90%. Agreement for 2 projects are yet to be signed.

Project	State	Project Types	Bid Cost (INR Mn)	LOA Received	Agreement Signed	Land Availability	Appointed Date
Kerala-Kanjhawala UER	Delhi	EPC	13,931	23-07-2021	08-09-2021	95%	25-10-2021
Raipur Visakhapatnam AP-1	A.P	HAM	10,601	30-07-2021	14-10-2021	70%	
Khammam Devarapalle Pkg-	Telangana	HAM	7,721	15-09-2021	Pending	15%	
Khammam Devarapalle Pkg-2	Telangana	HAM	6,371	15-09-2021	Pending	30%	Pending
Raipur Visakhapatnam OD-5	Odisha	HAM	14,921	25-10-2021	14-12-2021	90%	
Raipur Visakhapatnam OD-6	Odisha	HAM	11,231	25-10-2021	14-12-2021	90%	

GROWTH WITH FINANCIAL PRUDENCE

CAPITAL UTILIZATION

Over last 4 years, company is able to generate 2(x) to 2.8 (x) sales of capital employed. Asset turnover is ranging between 1(x) to 1.3 (x). This has helped company to generate higher ROCE.

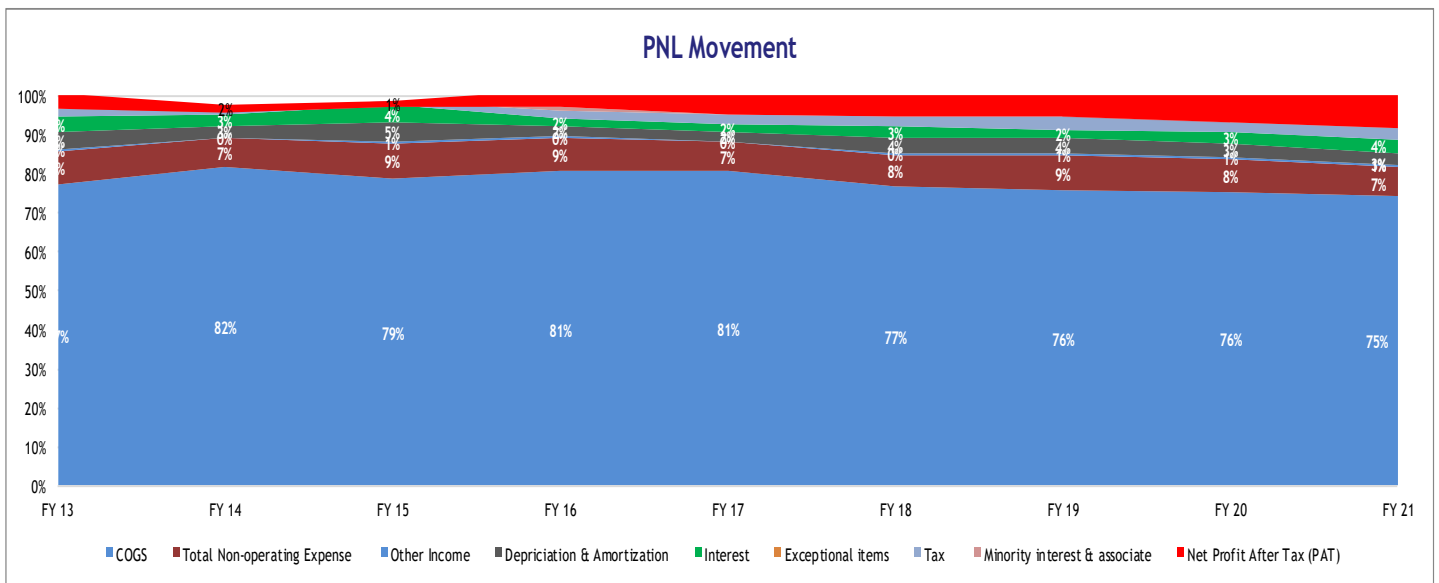
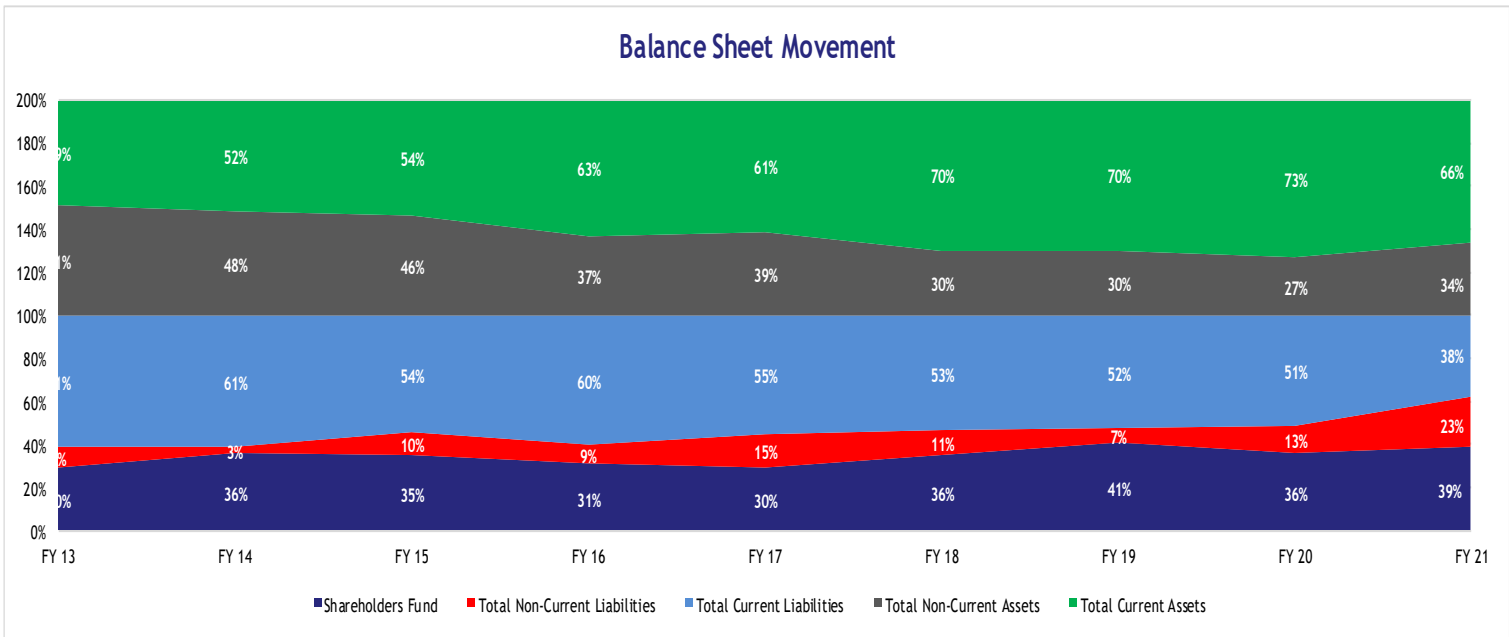
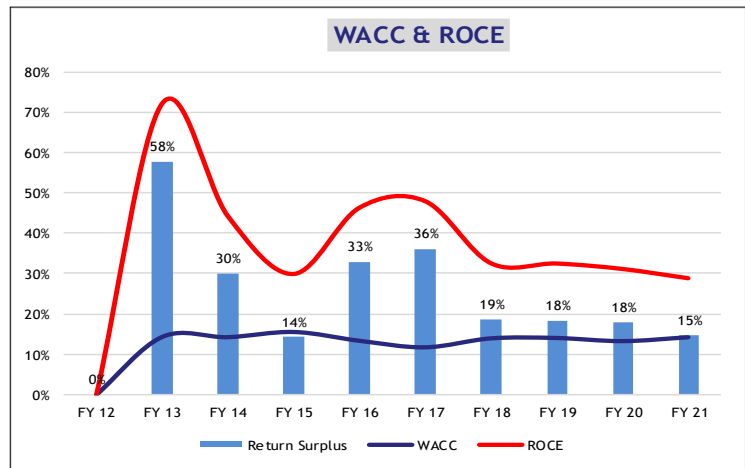
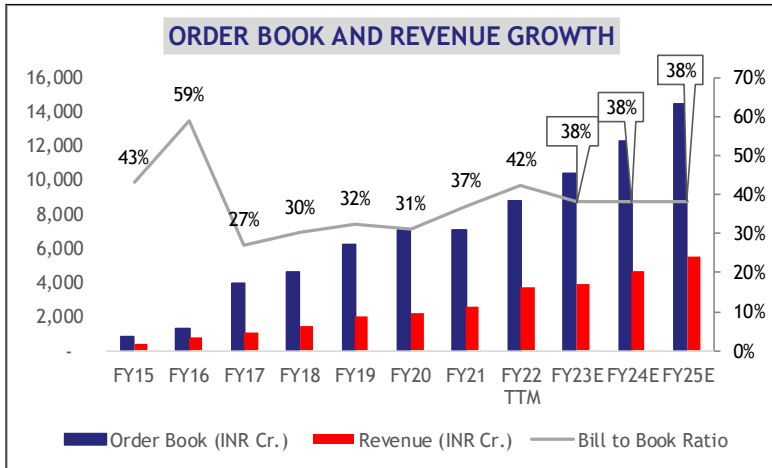
CAPITAL UTILIZATION									
Particulars (INR Cr)	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
Sales	324	471	365	741	1,056	1,393	2,014	2,217	2,602
Capital Employed	91	87	109	160	267	708	772	1,112	1,702
Capital Turnover	7.1	5.3	3.7	5.5	5.0	2.9	2.7	2.4	1.8
EBIT Margin	10%	8%	8%	8%	10%	11%	12%	13%	16%
ROCE	72%	44%	30%	46%	48%	33%	33%	31%	29%
ROIC	30%	12%	5%	26%	25%	17%	17%	18%	17%
Asset Turnover	2.8	2.1	1.6	2.3	2.1	1.3	1.3	1.1	1.0

REVENUE AND PROFIT TRENDS

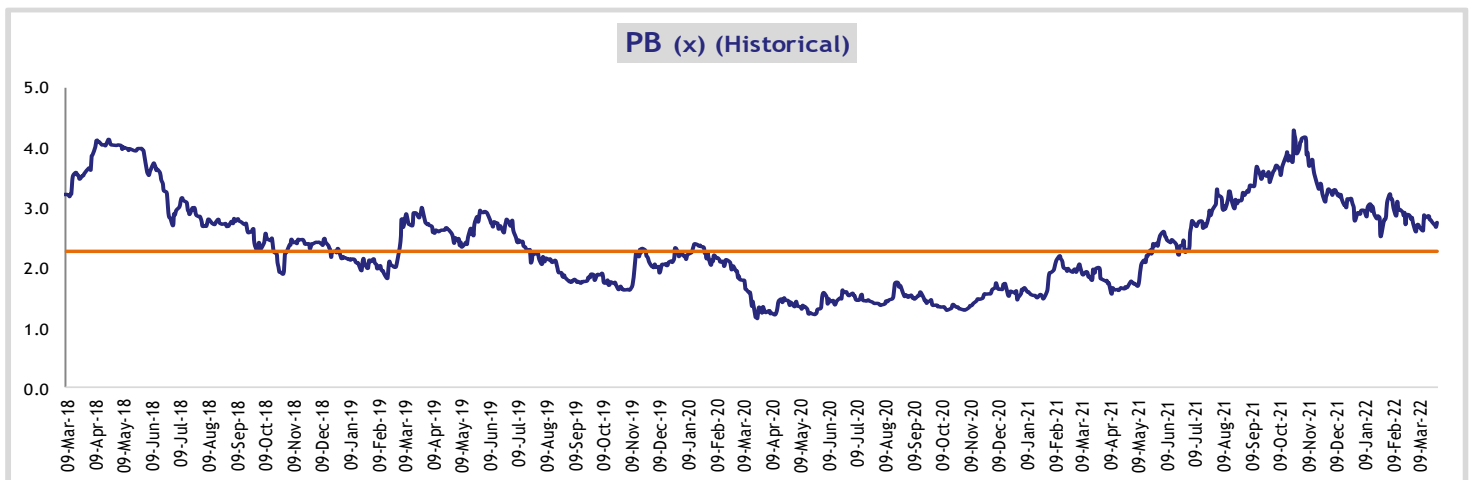
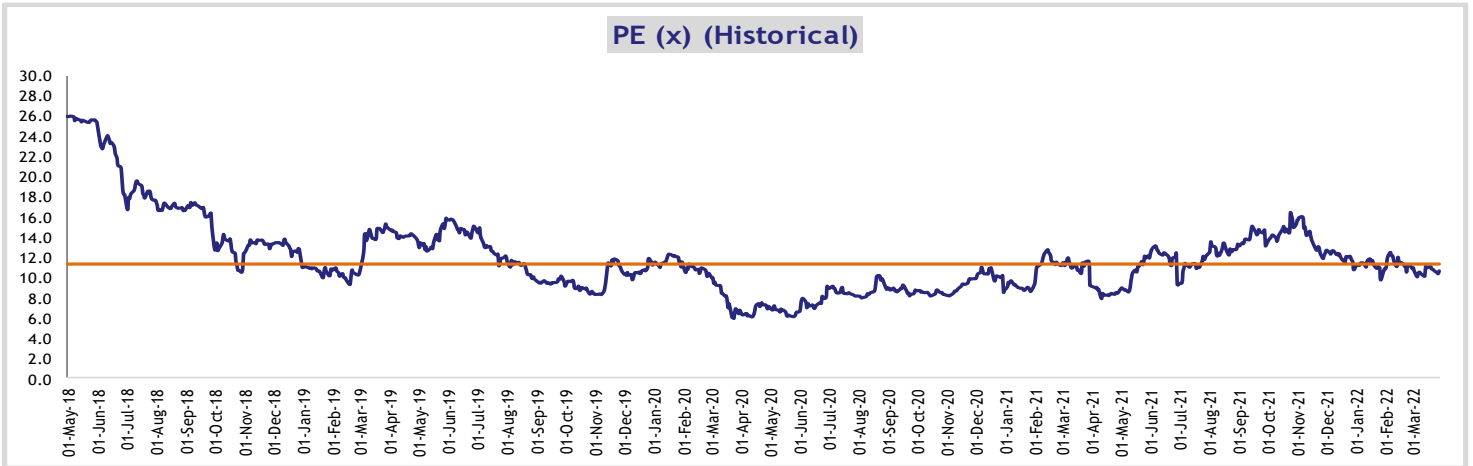
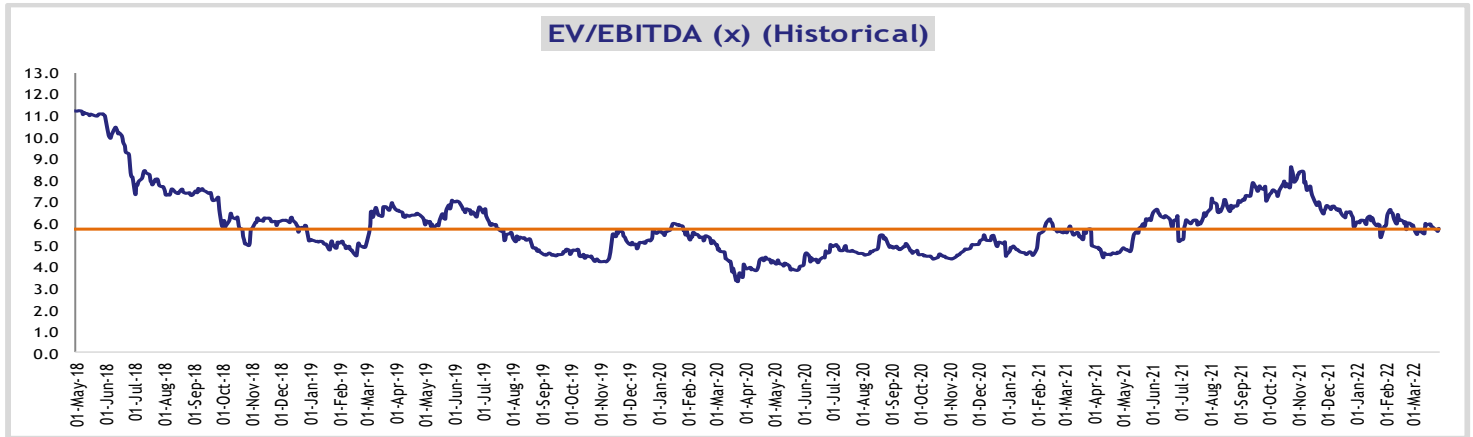
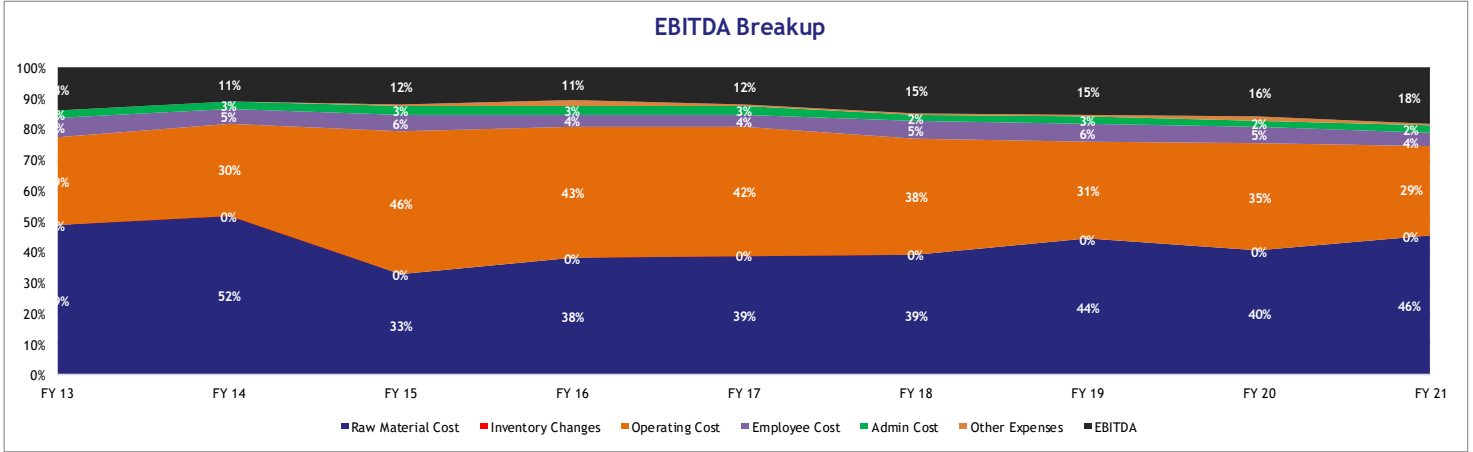
HGIL has able to generate higher sales each year from FY13 barring FY14. Cash conversion has remained muted over last three years ranging from 21% to 51%.

PROFITS OVER THE YEARS										
Particulars (INR Cr)	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	Total
Capital Employed	90.8	87.2	108.9	159.6	266.9	708.3	772.1	1,112.4	2,747.7	
Sales	323.6	471.0	365.1	740.9	1,056.0	1,392.7	2,014.5	2,217.1	2,903.6	
EBIT	32.8	39.4	29.3	62.2	102.3	158.8	240.6	293.6	406.2	
Net Profit	13.5	10.9	4.6	35.4	53.4	84.3	127.3	166.6	236.7	
Operating Cash	17.5	38.4	33.7	29.5	64.4	-7.8	65.6	35.7	70.6	
Free Cash Flow	-0.3	35.4	12.8	-33.2	-50.7	-266.2	-63.3	-67.5	-27.2	-
Capex	-17.8	-3.1	-20.9	-62.6	-115.1	-258.5	-128.9	-103.2	-97.7	-
Cash Conversion	130%	352%	726%	83%	121%	-9%	51%	21%	30%	47%

FINANCIAL STATEMENTS FLOW CHART



HISTORICAL VALUATION CHART



PROFIT AND LOSS STATEMENT

Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Net Operating Revenue	2,014	2,217	2,602	3,383	3,857	4,666	5,646
%growth	45%	10%	17%	30%	14%	21%	21%
COGS	1,526	1,678	1,943	2,571	2,970	3,500	4,178
Gross Profit	488	539	659	812	887	1,167	1,468
Operating Expense	184	184	183	186	212	220	220
EBITDA	305	355	476	626	675	840	1,073
EBITDAM%	24.2%	24.3%	25.3%	24.0%	23.0%	25.0%	26.0%
Other Income	12	14	15	25	28	31	35
Depreciation & Amr.	75	76	84	87	99	120	146
EBIT	241	294	406	564	604	751	961
Interest	49	60	94	120	145	178	212
Exceptional items	-	-	-	-	-	-	-
Pre-Tax Profit	192	234	312	444	459	572	749
Tax Rate%	35%	28%	24%	25%	25%	25%	25%
Tax Provision	67	64	75	111	115	143	187
Profit After Tax	127	167	237	333	344	429	562
PATM%	6%	8%	9%	10%	9%	9%	10%
%growth	51%	31%	42%	41%	3%	25%	31%

BALANCE SHEET STATEMENT

Particulars (INR Cr)	LIABILITY SIDE						
	FY 19	FY 20	FY 21	FY 22E	FY 23E	FY 24E	FY 25E
Equity Share Capital	65	65	65	56	56	56	56
Reserves and Surplus	598	761	997	1,324	1,661	2,082	2,633
Shareholders Fund	663	826	1,063	1,380	1,717	2,138	2,689
Long Term Borrowings	59	213	557	652	763	900	1,062
Deferred Tax Liabilities	-8	-8	-6	-7	-4	-	-
Other Long Term Liabilities	-	1	0	-	-	-	-
Long Term Provisions	58	80	88	112	131	159	192
Minority Interest	-	-	-	-	-	9	9
Total Non-Current Liabilities	109	286	639	757	890	1,067	1,263
Short Term Borrowings	182	191	132	203	270	373	452
Trade Payables	346	544	415	685	759	909	1,097
Other Current Liabilities	236	349	412	524	578	700	847
Short Term Provisions	86	87	86	118	147	182	215
Total Current Liabilities	850	1,170	1,260	1,531	1,754	2,164	2,610
Total Funds	1,623	2,283	2,961	3,668	4,362	5,370	6,562

Particulars (INR Cr)	ASSET SIDE						
	FY 19	FY 20	FY 21	FY 22E	FY 23E	FY 24E	FY 25E
Tangible Assets	462	483	484	498	568	688	835
Intangible Assets	-	-	-	-	-	-	-
Capital Work-In-Progress	-	11	2	-	-	-	-
Non-Current Investments	3	-	-	-	-	-	-
Long Term Loans & Advances	25	33	36	51	58	70	85
Other Non-Current Assets	-	92	408	338	309	233	339
Total Non-Current Assets	490	619	930	887	934	992	1,258
Current Investments	-	-	-	-	-	-	-
Inventories	116	106	168	176	203	240	286
Trade Receivables	615	685	582	927	1,035	1,266	1,547
Cash And Cash Equivalents	100	115	263	578	900	1,241	1,686
Short Term Loans & Advances	93	155	192	237	270	327	395
Other Current Assets	209	603	612	863	1,018	1,305	1,389
Total Current Assets	1,133	1,663	1,817	2,781	3,427	4,378	5,303
Total Assets	1,623	2,283	2,746	3,668	4,361	5,370	6,561

CASH FLOW STATEMENT

Particulars (INR Cr)	FY 19	FY 20	FY 21	FY 22E	FY 23E	FY 24E	FY 25E
Reported PBT	192	234	312	444	459	572	749
Non-operating & EO items	-1	8	-5	-10	-19	-14	-11
Interest expense	49	60	94	120	145	178	212
Depreciation	75	76	84	87	99	120	146
Working capital change	-192	-262	-336	-82	-62	-117	-140
Tax Paid	-58	-79	-78	-111	-115	-143	-187
Operating Cash Flow (a)	66	36	71	448	507	597	769
Capex	-129	-103	-98	-14	-70	-120	-146
Free Cash Flow	-63	-67	-27	433	437	476	623
Others	-78	71	152	9	37	52	45
Investing Cash Flow (b)	-207	-32	54	-6	-34	-69	-101
Interest expense	-25.43	134.04	246.70	-120	-145	-178	-212
Dividend	-4	-4	0	-7	-7	-9	-11
Others	-3	21	120	0	0	0	0
Financing Cash Flow (c)	-32.7	151.6	366.3	-126.3	-151.4	-186.8	-223.1
Net Cash Flow (a+b+c)	-174	155	491	316	322	341	445

FINANCIAL RATIOS

Particulars	FY 19	FY 20	FY 21	FY 22E	FY 23E	FY 24E	FY 25E
Solvency							
Debt/Equity	0.7	0.9	1.0	1.0	0.9	0.9	0.9
Interest Coverage	4.9	4.9	4.3	4.7	4.2	4.2	4.5
Liquidity							
Current ratio	1.3	1.4	1.7	1.8	2.0	2.0	2.0
Quick Ratio	1.7	1.6	1.6	19.1	17.7	17.7	17.4
Cash Ratio	0.5	0.7	1.0	0.9	1.1	1.2	1.2
Profitability							
Gross Profit	24%	24%	25%	24%	23%	25%	26%
EBITDA	15%	16%	18%	19%	18%	18%	19%
PBT	10%	11%	12%	13%	12%	12%	13%
PAT	6%	8%	9%	10%	9%	9%	10%
Returns							
ROE	21%	22%	25%	24%	20%	20%	21%
ROCE	33%	31%	29%	26%	23%	23%	24%
ROIC	17%	18%	17%	16%	13%	13%	14%
ROA	8%	9%	9%	9%	8%	8%	9%
Turnover							
Working Capital	7.6	5.7	4.1	2.7	2.3	2.1	2.1
Inventory	13.7	15.1	14.2	19.2	19.0	19.5	19.7
Capital Employed	2.7	2.4	1.8	1.6	1.5	1.5	1.4
Payable	4.9	3.7	4.2	4.9	5.1	5.1	5.1
Receivable	3.9	3.4	4.1	3.7	3.7	3.7	3.7
Asset	1.3	1.1	1.0	0.9	0.9	0.9	0.9
Days							
Cash Conversion Cycle	47	34	27	53	55	12	12
Receivable Day	95	107	89	107	121	120	123
Payable Day	74	97	87	78	89	87	88
Inventory turnover Days	27	24	26	24	23	23	23

VALUATION & RECOMMENDATION

GROWTH AT CHEAP VALUATIONS

- H.G. infra Engineering Ltd.'s stock is trading at PE multiple of 7.3(x) of forward earnings for FY25E.
- We estimate a CAGR of 19% growth in Contract revenue during FY 23E -FY25E period.
- Profit after tax of Rs 562 cr. crore is estimated for FY25E. We Applied a PE (x) multiple of 10.4(x) (3 yr. Avg.) and arrive at a market Capitalization of Rs. 5844 cr. (current Market Capitalization Rs 4104 cr).
- A 43% upside is visible as per valuations.
- We initiate coverage on 'H.G. Infra Engineering Ltd' with 'BUY' rating with a fair price of Rs. 898/share (10.4x FY25E).

Notes

Recommendation Rationale	
Recommendation	Expected Absolute Return (%) over 12 months
BUY	>15%
ACCUMULATE	<10% and >15%
NEUTRAL	<-10% and <10%
REDUCE	>-10% and <-20%
SELL	>-20

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for stock and our recommendation.

GEPL CAPITAL Pvt Ltd

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