

## Geared for growth

Inst'l Equity Research | India

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We recently visited the Udaipur-Chittorgarh and Chittorgarh-Gulabpura projects being implemented by HGINFRA. Strong on-ground execution of these road projects underpins the company's FY19 revenue growth guidance in excess of 40% (FY18 revenue of Rs13.9bn). Having mobilized resources (Rs3bn IPO, employee base more than tripled to 3,374nos and R3.7bn invested in new equipment) in the past 2 years, HG is well positioned to capitalize on opportunities in the booming road infra sector. The company, however, has a disciplined and focused approach; it targets large government-funded EPC projects in select states. Revenue visibility is strong, with a well-diversified, robust order book of Rs53bn (3.5x TTM revenue). At CMP, the stock is trading at 17.5x FY18 standalone earnings. **NOT RATED.**

### On-ground execution supports revenue growth guidance in excess of 40%:

We came back with positive impressions from our recent site visits to the Udaipur-Chittorgarh and Chittorgarh-Gulabpura projects being implemented by HGINFRA. It has achieved 26%/34% physical completion, respectively, and the projects will be comfortably completed well within timelines. With execution beginning on other projects too, the company expects revenue growth of ~40% (FY18 revenue of Rs13.9bn) in FY19 and EBIDTA margin of around mid-teens (14.9% in FY18).

### Timely mobilization of resources for the large opportunity in road sector:

HGINFRA has invested more than Rs3.7bn over the past 2 years on purchase of construction equipment to strengthen its execution capability and accelerate project progress. The company recently raised funds through an IPO to ensure it is well capitalized in a capital-intensive sector. Importantly, it also strengthened its employee base to 3,700+ employees in Jun'18 to cater to its robust order book.

### Focused approach – government-funded road EPC in select geographies:

Building on its core competency of project execution, HGINFRA has focused on large ticket EPC projects funded by government/large private clients with a better payment track record. It is, however, open to evaluating HAM projects selectively, but at any point the proportion of HAM projects in the order book is not expected to exceed 25%. It has also cautiously diversified geographically to areas providing scale, ensuring that its margins are not negatively impacted.

### Diversified, robust order book gives comfort on revenue visibility:

The order backlog as of Q1FY19 was Rs53bn (3.5x TTM revenue) which strengthens revenue visibility. The order book is well diversified (~40% of the orders coming from Rajasthan, 22% from UP, 26% from Maharashtra and 11% from Haryana) to avoid large dependency on any particular state.

**Valuations:** At CMP, stock is trading at 17.5x FY18 standalone EPS. **NOT RATED.**

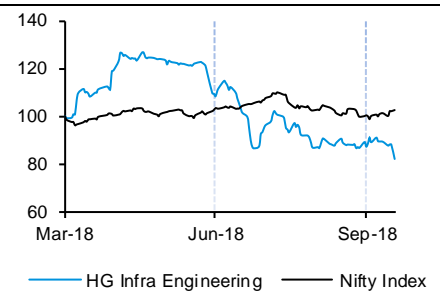
Rating

**Not Rated**

#### Market data

Current price	Rs	221
Mkt capitalisation	USDm	199
Average daily value 3M	USDm	0.4
Free float	%	26.3
Promoter holding	%	73.7

#### 1 Year Performance



Source: Bloomberg, SSLe

#### Financial Summary

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17	FY18
Net sales	4,447	3,352	7,124	10,560	13,927
EBITDA margin (%)	11.4	13.1	11.0	11.8	14.9
Adjusted net profit	172	92	302	534	843
Free Cash flow	343	116	(315)	(589)	(2,611)
EPS (Rs)	11.3	6.0	16.7	29.6	12.9
growth (%)	27.3	(46.3)	227.3	77.0	57.7
P/E (x)	20.1	37.4	13.5	7.6	17.5
P/B (x)	4.3	4.1	3.3	2.3	2.7
EV/EBITDA (x)	30.5	35.2	20.1	13.1	7.9
RoE (%)	23.1	11.2	29.1	35.7	23.5

Source: Company, SSLe

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H.G. Infra Engineering (HGINFRA) is an infrastructure construction, development and management company with extensive experience in road projects, including highways, bridges, and flyovers. Its business operations include providing EPC services on a fixed-sum turnkey basis, and undertaking civil construction and related infrastructure projects on an item rate and lumpsum basis, primarily in the roads and highways sector. The company is pre-qualified to bid independently on an annual basis for bids by NHAI and MoRTH of contract value up to Rs11.2bn / Rs16.8bn in EPC/HAM projects based on the technical and financial capacity.

**On-ground execution reinforces revenue growth guidance in excess of 40%:** The company's pace of project execution can be gauged from the progress on the Udaipur-Chittorgarh ("Sec 1") and Chittorgarh-Gulabpura ("Sec 2") projects. It has achieved 26%/34% physical completion respectively in Sec1/2, and is comfortably placed to complete the balance portions ahead of Sep'19 /Nov'19 timelines. Both the stretches together will have four toll plazas of which two (one each in Sec 1 and Sec 2) will be constructed by HGINFRA. In Sec 1, complete work for the 49km portion is being done by HGINFRA; in the other 15km it is executing only the top layering work and the balance earthwork, and GSB works is being performed by another contractor. For the existing four lanes, it assesses the strength and quality of the existing stretch and undertakes the necessary repair, and bitumen/concrete layering work. The company also outsources petty works such as earthing and dumping to third-party contractors, restricting its work to niche areas of crushing, grading, compacting, and layering work. To manage both stretches comfortably and avoid disruption, it has set up three camps that house hot mix plants, site management and monitoring teams, raw materials store, worker accommodation, etc. The top management also spends most of the time at the camp sites to monitor the site progress themselves. Given the pace of execution at other projects, the company expects to outperform the 20-25% annual growth of India's road building sector in FY19 with projected annual revenue growth in excess of 40% (FY18 revenue of Rs13.9bn) and EBITDA margin of around mid-teens (14.9% in FY18).

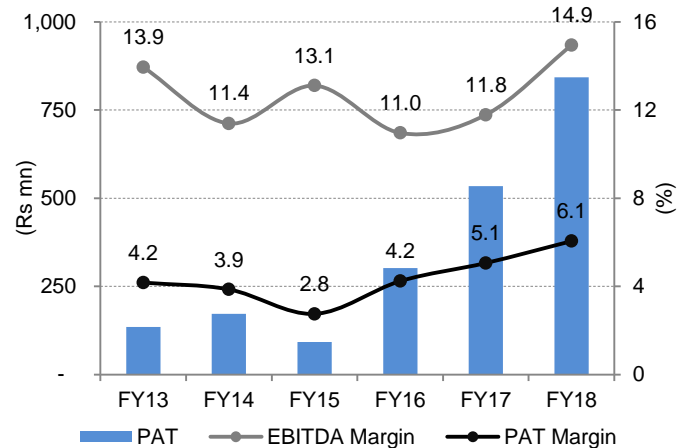
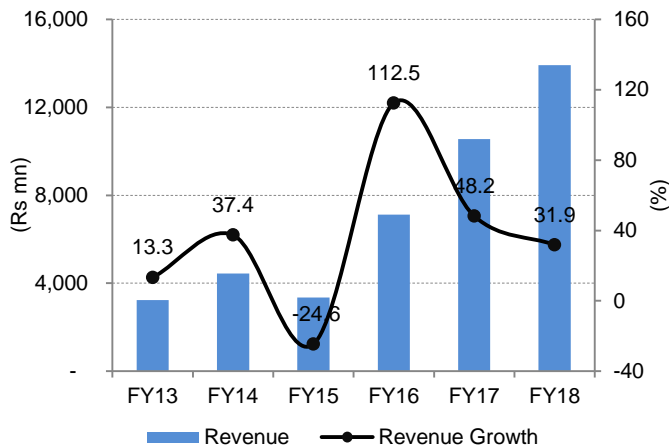
#### Details of projects in site visit

Particulars	Udaipur-Chittorgarh	Chittorgarh-Gulabpura
Nature of Work	Six Laning	Six Laning
Project Length (km)	64	75
Appointed Date	July 2017	Nov 2017
Construction Period	730 days	730 days
Project Cost (Rs mn)	4,834	7,117
Role	Joint Venture	Sub-contractor
Client	Tata Projects	IRB Infrastructre
Flyovers (nos)	1	4
Vehicular Under-Pass (nos)	6	6
Pedestrian Under-Pass (nos)	12	9
Cattle Under-Pass (nos)	6	0
Financial Progress as on date	25.30%	~30%
Physical Progress as on date	25.96%	34.00%
Total Staff deployed	309	
P&M Deployment	240	79

Source: Company, SSL

Revenue growth robust with a 5-yr CAGR of ~34%

Gradual uptick in margins lead to PAT CAGR of ~44%



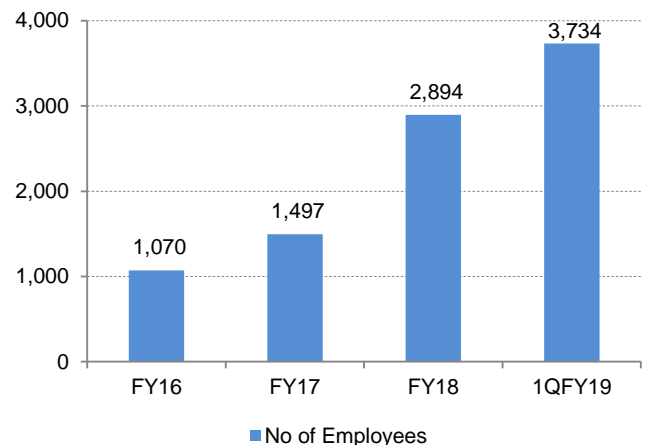
Source: Company, SSL

**Timely mobilization of resources for the large opportunity in road sector:** Anticipating the huge upcoming opportunity in India’s road sector, HGINFRA has invested more than Rs3.7bn over the past 2 years in purchase of construction equipment to strengthen its execution capability and accelerate project progress. The company recently raised funds through an IPO (refer Exhibit below). HGINFRA has ensured that it is well capitalized in a capital-intensive sector. Its fleet of modern construction equipment for large-scale execution totals 1,441 as of 30 Jun’18. Importantly, it has also enhanced employee strength significantly in the past couple of years (employee count increased >3x to 3,734 in Jun’18 from 1,070 in Mar’16) in order to have seamless access to skilled/un-skilled manpower. It recently completed SAP implementation to streamline business processes and flow of information so that it can exercise better control over its resources. Thus, HGINFRA has mobilized all the required resources to benefit from the large-scale awarding opportunity and, thereafter, timely execution of projects.

Details of IPO proceeds deployment

Objective	IPO Proceeds earmarked (~Rs mn)	Funds yet to be deployed (~Rs mn)
Retirement of Debt	1,150	200
Capex	900	300
General business activities	950	-

Employee base increased 3.5x

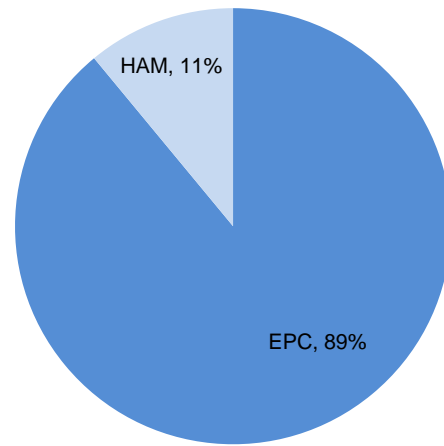
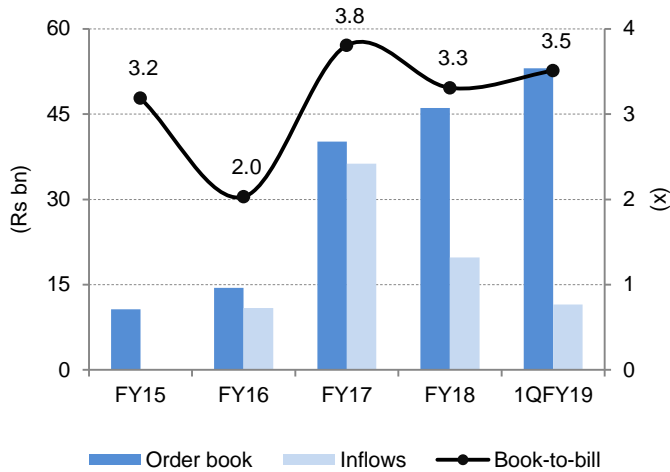


Source: Company, SSL

**Focused approach – government-funded road EPC in select geographies:** HGINFRA has steered clear of taking aggressive bets and has a disciplined approach in project selection. Building on its core competency of project execution, HGINFRA has focused on large ticket (pre-qualified to bid for Rs16.8bn of HAM projects and Rs11.2bn of EPC contracts) EPC projects funded by government/large private clients with a better payment track record. However, it is open to evaluating HAM projects selectively, but at any point the proportion of HAM projects in the order book is not expected to exceed 25%. It is also in talks with some investors for pumping in equity in these HAM projects. Currently, it has only 1 HAM project in Haryana worth Rs6.1bn, whose financial closure has been achieved from Tata Cleantech Capital and land >75% has been acquired. HGINFRA has been cautious in geographical diversification – only after establishing and delivering in its home state of Rajasthan has it broadened its presence significantly across a few other states such as UP, Haryana, Maharashtra, and it is still enjoying the cluster benefits.

**OB/Sales of 3.5x gives comfort to revenue visibility**

**Major focus to still remain on EPC Projects**

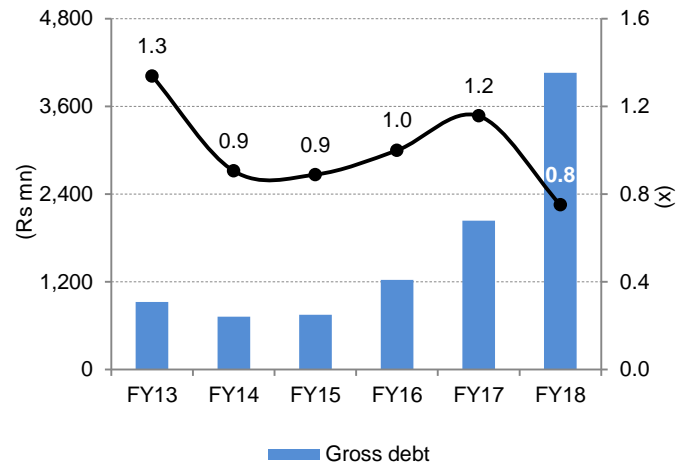
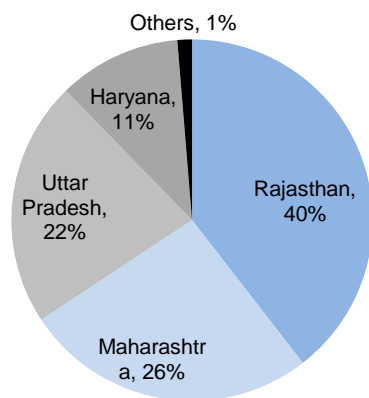


Source: Company, SSL

**Diversified robust order book gives comfort on revenue visibility:** The order backlog as of Q1FY19 was Rs53bn – 3.5x TTM revenue. The OB is well diversified across geographies with ~40% of the orders coming from Rajasthan, 22% from UP, 26% from Maharashtra and 11% from Haryana. The company has also received an order (six laning of Hapur-Moradabad) from IRB of Rs11.7bn, of which the appointed date is expected by December. Apart from geographical diversification, it is also planning to enter other infra segments such as water supply, airports, runways, etc. With a strong B/S, proceeds of the recent IPO and internal accruals (gearing of 0.8x), the company is well placed to tap more orders, which will keep the revenue growth momentum intact. It expects to end the year with an order book of Rs60bn.

**Gradual shift in geographical presence**

**Comfortable leverage levels to reduce further**



Source: Company, SSL

**Major Projects under execution**

Name of Work	Appointed Date	Project Cost (Rs mn)	Project Length (km)	Role	Client/Party
Six laning of Gulabpura- Chittorgarh Section-2	Nov 2017	7,117	75	Sub-contractor	IRB Infrastructre
Six laning of Chittorgarh- Udaipur Section of NH-76 Section-1	Jul 2017	4,834	64	Joint Venture	Tata Projects
Rehabilitation & Up-gradation from Two lane with paved shoulder of Nagpur-Katol-Warud State Highway	Jun 2017	3,142	40	Contractor	MoRTH
Rehabilitation & Up-gradation to two lane with paved shoulders/ 4 lane of Nandurbar - Prakasha- Sahada-Khetia State Highway	Jun 2017	2,981	40	Contractor	MoRTH
Rehabilitation & Up-gradation from Two lane with paved shoulder of Amarvati-Nandgaon-Morshi-warud- Pandhurna	Jun 2017	2,945	43	Contractor	MoRTH

Source: Company, SSL

**Major Projects completed**

Name of Work	Project Cost (Rs mn)	Project Length (km)	Role	Client
Four laning of Warora-Chandrapur-Ballarpur-Bamni section	2,638	64	Sub-contractor	ITNL
Four laning of Jaipur-Tonk-Deoli Section (P-II)	3,620	51	Sub-contractor	IRB Infrastructure
2nd Renewal Coat on pavement of 6 lane divided carriageway of Jaipur-Kishangarh Section	1,423	90	Sub-contractor	GVK
Widening and strengthening of NH-96 (New NH No.330)- Faizabad-Allahbad section	1,711	46	Contractor	NHAI
Agra-Inner Ring Road (Phase-I)- Kuberpur to Fatehabad Road	3,069		Contractor	NHAI

Source: Company, SSL

# Site visit pictures

Existing toll plaza to be expanded to 18 lanes



Repair work on existing four loan concrete road



Bitumen and concrete hot-mix plants at the project sites



Double bitumen layering at Udaipur-Chittorgarh stretch in progress



Sprayers and rollers at work



## Financials

Income Statement					Balance Sheet				
Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18	Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18
<b>Net sales</b>	<b>3,352</b>	<b>7,124</b>	<b>10,560</b>	<b>13,927</b>	<b>Cash &amp; Bank balances</b>	<b>14</b>	<b>269</b>	<b>483</b>	<b>2,289</b>
<i>growth (%)</i>	<i>(24.6)</i>	<i>112.5</i>	<i>48.2</i>	<i>31.9</i>	Other Current assets	982	2,282	2,984	6,896
Operating expenses	2,913	6,344	9,316	11,847	Investments	1	0	0	0
<b>EBITDA</b>	<b>439</b>	<b>781</b>	<b>1,244</b>	<b>2,081</b>	Net fixed assets	836	1,210	2,051	4,205
<i>growth (%)</i>	<i>(13.2)</i>	<i>77.7</i>	<i>59.4</i>	<i>67.2</i>	Goodwill & intangible assets				
Depreciation & amortisation	171	183	256	539	Other non-current assets	417	233	204	1,454
<b>EBIT</b>	<b>268</b>	<b>597</b>	<b>988</b>	<b>1,542</b>	<b>Total assets</b>	<b>2,250</b>	<b>3,994</b>	<b>5,721</b>	<b>14,844</b>
Other income	25	24	34	47	Current liabilities	561	1,538	1,924	5,329
Interest paid	158	160	189	401	Borrowings	750	1,227	2,037	4,058
Extraordinary/Exceptional it	0	0	0	0	Other non-current liabilities	94	1	0	48
<b>PBT</b>	<b>135</b>	<b>461</b>	<b>834</b>	<b>1,188</b>	<b>Total liabilities</b>	<b>1,405</b>	<b>2,766</b>	<b>3,960</b>	<b>9,436</b>
Tax	43	159	300	345	Share capital	153	180	180	652
<i>Effective tax rate (%)</i>	<i>31.6</i>	<i>34.6</i>	<i>35.9</i>	<i>29.0</i>	Reserves & surplus	692	1,048	1,581	4,757
<b>Net profit</b>	<b>92</b>	<b>302</b>	<b>534</b>	<b>843</b>	<b>Shareholders' funds</b>	<b>844</b>	<b>1,228</b>	<b>1,761</b>	<b>5,409</b>
Minority interest					Minority interest				
<b>Reported Net profit</b>	<b>92</b>	<b>302</b>	<b>534</b>	<b>843</b>	<b>Total equity &amp; liabilities</b>	<b>2,250</b>	<b>3,994</b>	<b>5,721</b>	<b>14,844</b>
Non-recurring items	0	0	0	0					
<b>Adjusted Net profit</b>	<b>92</b>	<b>302</b>	<b>534</b>	<b>843</b>					
<i>growth (%)</i>	<i>(46.3)</i>	<i>227.3</i>	<i>77.0</i>	<i>57.7</i>					

Key Financials ratios					Cash Flow Statement				
Y/E Mar	FY15	FY16	FY17	FY18	Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18
<b>Profitability and return ratios (%)</b>					Pre-tax profit	135	461	834	1,188
EBITDAM	13.1	11.0	11.8	14.9	Depreciation	112	112	112	112
EBITM	8.0	8.4	9.4	11.1	Chg in working capital	(55)	(451)	(479)	(1,669)
NPM	2.8	4.2	5.1	6.1	Total tax paid	(64)	(149)	(246)	(345)
RoE	11.2	29.1	35.7	23.5	Other operating activities	148	369	324	790
RoCE	12.4	19.6	21.0	16.9	<b>Operating CF</b>	<b>277</b>	<b>343</b>	<b>544</b>	<b>76</b>
RoIC	5.8	15.6	19.4	16.0	Capital expenditure	(175)	(609)	(1,086)	(2,687)
<b>Per share data (Rs)</b>					Chg in investments	(0)	1	-	-
O/s shares (mn)	15.3	18.0	18.0	65.2	Other investing activities	14	(49)	(48)	-
EPS	6.0	16.7	29.6	12.9	<b>Investing CF</b>	<b>(161)</b>	<b>(658)</b>	<b>(1,134)</b>	<b>(2,687)</b>
FDEPS	6.0	16.7	29.6	12.9	<b>FCF</b>	<b>116</b>	<b>(315)</b>	<b>(589)</b>	<b>(2,611)</b>
CEPS	17.3	26.9	43.9	21.2	Equity raised/(repaid)	-	28	-	3,166
BV	55.4	68.1	97.7	83.0	Debt raised/(repaid)	28	477	809	2,022
DPS	0.0	0.0	0.0	0.0	Dividend (incl. tax)	-	-	-	-
<b>Valuation ratios (x)</b>					Other financing activities	-	-	-	-
P/E	37.4	13.5	7.6	17.5	<b>Financing CF</b>	<b>28</b>	<b>504</b>	<b>809</b>	<b>5,187</b>
P/BV	4.1	3.3	2.3	2.7	<b>Net chg in cash &amp; bank bal</b>	<b>144</b>	<b>190</b>	<b>220</b>	<b>2,576</b>
EV/EBITDA	35.2	20.1	13.1	7.9	<b>Closing cash &amp; bank bal</b>	<b>14</b>	<b>269</b>	<b>483</b>	<b>2,289</b>
EV/Sales	4.6	2.2	1.5	1.2					

Other key ratios				
D/E (x)	0.9	1.0	1.2	0.8
DSO (days)	46	62	57	77

Du Pont Analysis - RoE				
NPM (%)	2.8	4.2	5.1	6.1
Asset turnover (x)	1.5	2.3	2.2	1.4
Equity multiplier(x)	2.7	3.0	3.3	2.9
RoE (%)	11.2	29.1	35.7	23.5

Source: Company, SSLe

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