



H.G. INFRA ENGINEERING LIMITED
Chairman's Speech
21st Annual General Meeting | August 21, 2023

Dear Shareholders,

It gives me immense pleasure to share that your company has built a strong imprint in the sphere of the infrastructure sector last year with an incredible growth story encapsulating excellent progress in the last financial year.

Before highlighting the performance of the Company on varied parameters, I would like to showcase some prominent insights on the infrastructure sector to underline the upcoming opportunities for us in the time to come.

As you all know that the infrastructure sector continues to be focal point for the economic growth of the country. The same is much evident from the budget outlay which is increased year on year which shows the Indian government places a high priority on infrastructure development and connecting India through better roads, railway and other mode of transportation. The government has launched several programs like National Infrastructure Pipeline, the Gati Shakti Program, Bharatmala pariyojana to be implemented in two phases, Sagarmala, Parvatmala projects to enable seamless movement across major economic centre and create better connectivity with better synergy across country.

The infrastructure sector has gained prominence in the Government of India's agenda, as evidenced by the allocation of Rs. 111 lakh crore (US\$ 1.4 trillion) in the Union Budget 2023.

The Ministry of road transport and highways (MoRTH) has received a push with the Union Budget raising the allocation by 36 percent to around Rs 2.7 lakh crore for 2023-24. This is nearly 10 percent jump over the Budgetary allocation of Rs 1.99 lakh crore made in the Budget for 2022-23. Roads are expected to account for 18% of the capital expenditure during this period. Higher budgetary allocations were necessary to help the ministry meet the 25,000-km road development target.

The Indian Railways has been allocated a capital outlay of Rs 2.4 lakh crore in the Union Budget 2023-24. This is the highest ever allocation to the national transporter and continues the trend followed last year with a gross budgetary support of Rs 1.37 lakh crore in fiscal 2022-23. It focuses on improving Freight Efficiency, Augmenting speed of trains, improving passenger amenities and enhancing safety, connectivity and modernization of trains and stations. Railways is also speeding up electrification of lines, aiming to make the entire network electric this year. Laying of new tracks is also expected to go up to over 2,500 km in FY24.

In terms of Jal Jeevan Mission (JJM), the budgetary allocation has seen a significant increase, growing at an 85% CAGR from Rs 11000 Crore in FY21 to Rs 69700 Crore in FY24, demonstrating the Government's commitment to water infrastructure development.

Airports: AAI and other Airport developers have targeted a capital outlay of around Rs. 98,000 Cr in next five years. Government is targeting the privatization model and focus on strengthening Tier 2 and Tier 3 airports. The number of Major airports is expected to increase from 16 (currently) to 45 by 2033.

Under Parvatmala program, the government has plans to develop over 250 ropeway projects worth ₹1.25 lakh crore (\$15 billion) over a period of five years.

As an infrastructure company, we play a pivotal role in shaping the world around us. The past fiscal year was marked by opportunities that fuelled growth and this year with the government focus in all these sectors gives us plethora of prospects to take this organization in next league.

Dear Friends,

Let me now enlighten the forum with the company's key events to cover operational, financial, digital transformation, governance and other key developments in the company.

Our company is today one of the most sought, bankable and promising infrastructure construction company in the country. With 20 years of presence in this sector, the hallmark of our execution is timely delivery and qualitative execution ensuring all safety parameters which has been well appreciated by the respective authorities, I am really happy to share that the company has outshined not only in execution of road projects such as highways, roads, bridges, and flyovers but today we have diversified into metro and railways. With a presence in 11 states, we have 20 plus active projects including 12 HAM projects bolstered by a sustainable business model encompassing a fleet of over 2500+ modern equipments and a workforce of 4000+ employees.

Friends

Let me now share few words on the financial performance of the company including Debt position, Credit Rating and Dividend Payouts.

As you all know that the company got listed in 2018 and we have come long way in these years in terms of growth and registered strong presence. It is matter of gratification with deep conviction that in the last five years, the company has outperformed and surpassed the financial benchmarking with compounded annual growth of 26 % in revenue, 28% CAGR in EBITDA and 38% CAGR in PAT. This is testimony of the management vision and strategies we are building from selective bidding at good margin till the completion of the projects well in time with quality execution.

In the fiscal year FY23, the Company demonstrated exceptional performance across all financial dimensions. During this period, the standalone total revenue amounted to Rs 4,419 crore registering a remarkable 22.2% year-on-year upswing from Rs 3,615 crore recorded in FY22.

The EBITDA for FY23 stood at Rs 710 crore, reflecting a noteworthy annual growth of 21.5% from FY22, accompanied by an EBITDA margin of 16.1%. The PAT margins for FY23 were positioned at 9.5%, resulting in a profit after tax of Rs 421 crore for the FY23 with substantial increase compared to the Rs 339 crore reported in FY22.

We have always focused on building a resilient financial base for organic growth. The management is vigilant to keep check on finance cost and stringent measures are adopted to maintain the financial discipline. At the standalone level, the company's gross debt amounted to Rs 504 crore. This figure constituted a working capital debt of Rs 39 crore, term loans and current maturities, along with trade limits worth Rs 368 crore and non-convertible debentures (NCDs) valued at Rs 97 crore.

At the consol level, the overall gross debt increased to Rs 1907 crore. Notably, this included a project-specific debt of Rs 1403 crore.

All our financial ratios were one of the best in the sector. Current ratio stood at 1.36, Quick Ratio stood at 1.20, debt equity ratio stood at 0.28, ROCE and ROE stood respectively at 30% and 24%, debt service coverage ratio stood at 4.47 times. Our concerted efforts have reduced the net working capital cycle in the last five years from 46 days in FY 19 to 23 days in FY23.

Credit Rating

During the financial year, ICRA Limited has upgraded our long-term credit rating from “A+” to “AA-”. ICRA has also upgraded the Short-term rating at A1+. Further, during the financial year, ICRA has also upgraded its credit rating for Non-Convertible Debentures at “AA- “. The rating was favourably influenced by HG’s pre-qualification credentials, capital allocation discipline, availability and prudent utilization of banking limits, timely financial closures, pedigree of clients, healthy order book, timely project completion and several other key rating aspects. This creditable rating has generated positive spin-offs, empowered Company to mobilise low-cost debt across longer tenures and strengthened its respect in our financial community.

Friends

It is important to convey that we were able to do financial closure of all our HAM projects withing stipulated time and probably at the lowest interest rate prevailing in the market.

I will now touch upon “Monetization of HAM” projects which was one of the most essential, awaited and coveted transaction of the year which has been well appreciated by the financial street.

The Company has entered into Share Purchase Agreement (SPA) with Highways Infrastructure Trust ("Buyer") and Highway Concessions One Private Limited, sponsored by KKR to monetize its four HAM projects namely Gurgaon Sohna, Rewari-Ateli, Ateli-Narnaul, and Rewari Bypass. The term sheet of this transaction was signed on 24th Dec 2022 and the entire technical, operational and financial due diligence was carried away in four months and eventually we have signed SPA on 3rd May, 2023 with the Company selling its 100% stake in these subsidiaries.

The entire transaction is valued at Rs1394 crore, with equity value of Rs 531 crore which was 1.55 times of the price-to-book ratio. The equity and debt commitments for all four HAM assets amounted to Rs 343 crore and Rs 996 crore, respectively.

Talking about the recent updates on the same, HG has received lender's approval for first tranche of 3 SPVs and all other conditions of the agreements are either completed or at an advanced stage of completion. Also, the final approval from NHAI for these three SPVs is expected soon. On receipt of NHAI's final approval, we will proceed with the completion of first tranche of our transaction, including the transfer of shares and receipt of the consideration.

In case of second tranche, the same process shall be carried out for fourth HAM project i.e., Rewari Bypass Pkg-4. We have applied for the PCOD and final approval from the authority is expected shortly. Post which we will initiate the approval and compliance process.

We are optimistic that we would be able to complete this transaction well within the targeted time as we do not see any challenges in the current scenario. The strong valuation of this deal will strengthen the Company's balance sheet and will support us in future growth for order book diversification, make additional equity available for other new HAM projects, other investments and build positive momentum in the entire financial ecosystem.

I am sure that all the significant events and developments would build confidence in our shareholders. I am happy to convey that with the consistent efforts of the company, today financial health of the organization is really one of the best in this sector which has been well acknowledged by our lenders, our rating agency and all other financial partners who have stood with us, believed in us and supported us year on year to reduce our finance cost.

The management of the company has always believed in sharing the profits with their shareholders to create value, trust and long-term association with each one of you and I feel elated to convey that

the company has allocated total dividend of Rs 8.1 crore, upticking it from Rs 6.5 crore allocated in FY22. This translated into a dividend payout ratio of 2%.

Dear Shareholders, I will now brief on the operational Highlights of the Year

In terms of our business developments in FY23, our order book reached Rs 12,595 crore with a 5-year CAGR growth of 22.3% out of which EPC projects constituted 55% of our order book, while HAM projects made up the remaining 45%.

Last year we were awarded three new HAM namely Karnal Ring Road in Haryana, valued at Rs 997 crore and package 10 & 13 of Varanasi- Ranchi - Kolkata highways in the state of Jharkhand amounting to Rs 1303 crore and Rs 925 crore respectively. Financial closure of Karnal project is in advance stage and appointed date is expected to be declared soon in this quarter. For Varanasi Kolkata Pkg-10 & Pkg-13, financial closure and appointed date is expected by Dec-2023 and March 2024. It is pertinent to address that we have diversified our business in DMRC metro project and railways segment. As of now we have received LOA of Kanpur Central Railway Station on 5th June 23'. Apart from this, we have also received Appointed date of Bilaspur Himachal Pradesh Railway Project of RVNL on 24th May 23.

Turning our attention to ongoing projects, our progress in all the projects is well in time as per the contractual milestones. As of March 2023, Ganga Expressway EPC project achieved progress of 12.9%, indicative of commendable advancement. In Delhi UER project, we have completed 53.0%. Similarly, the Neelmangala-Tumkur project has progressed at 8.4%. In HAM projects, Rewari Bypass project, we have applied for PCOD and final approval is expected soon. In AP-1 we have achieved progress of 38.8% & in OD-5 and OD-6 project completion was 33.4% and 38.3% respectively as on March 23. In case of Khammam Devarapalle Pkg-1, we achieved progress of 6.0% and in Khammam Devarapalle Pkg-2, the progress touched 16.0%.

I am also happy to share that HG has always performed timely execution of all projects with no delays in any project.

Dear Friends, let me now run through the other important milestones of the year in other important areas of the organization.

Technology & Automation

The infrastructure sector in India employs a range of approaches from traditional and manual interventions to modern techniques driven by increasing automation & Digitisation.

At HG Infra, we recognized the transformative power of technology and its crucial role in shaping our future and have done radical changes to make this company digitally sound. Let me briefly walk through few major technology initiatives that HG Infra has undertaken in recent times:

- The Company developed a web and mobile application that integrates with SAP S4 Hana to automate and monitor fuel consumption.
- The Company has started implementation of SAP Concur in integration with SAP S4 HANA, a comprehensive digitization solution for our Administration department for various expenses and travel management expenditures, demonstrating the company's commitment to manage its expenditures effectively.
- The Company has started the implementation of SAP ARIBA in integration with SAP S4 HANA, a comprehensive digitization solution for SCM.

I would like to reiterate that the company is deeply committed to enhance its processes, systems through automation and digitization across all functional areas. We are actively seeking opportunities to integrate with third-party applications, leveraging both our current and future technological requirements.

Human Capital

The foundation of HG Infra's success is firmly built on the dedication, talent, and unwavering commitment of our employees. We have indeed the best human capital which execute the projects and deliver the vision of the company. It is the passion and zeal of every employee to perform which has led to the phenomenal growth of the company till date.

We believe that employees are the backbone of our success ensuring the growth of the company. We are committed to build a safe working environment for all our employees and to increase employee motivation, we organize reward and recognition programs as well on regular time frame.

As an organization, we recognize that our growth is synonymous with improving the skills of the employees and make them enterprising for their future growth in this organization. Continuous learning and growth are ensured through seminars and workshops on new technologies, job related enrichment specific trainings. To offer on-the-job skills, we have tied up with various institutions for creating more effective and impactful learning process. Apart from these, various behavioural skills trainings are also organized with the help of prominent leaders from the industry.

The management of the company has always believed for the value creation of the employees and take care of their social and financial standings. Today various insurance schemes are covering the life and health of our employees and their families. The management ensures to recognize the performance and the outperformers. As a result, all the deserving employees are rewarded and timely compensated with “performance linked bonuses and other reward and recognition policy” to create the environment of healthy working and long association with the company.

To validate the above lines, an impressive 2.72% of employees i.e 110 numbers had demonstrated their commitment to the company as they are working with the company for ten years or more. These numbers will further add on at 567 numbers i.e. 14.06% if we consider the tenor of employees more than 5 years.

This statistic highlights the company's culture to cultivate an environment congenial to long-term professional growth, commitment, deliverance and loyalty.

Corporate Governance

Within the realm of corporate governance at H.G. Infra, we understand that in an ever-changing world, stability is achieved through effective practices. Our approach emphasizes making well-informed decisions that go beyond procedural correctness, with integrity taking precedence over mere operational efficiency.

Our ambition extends beyond aiming to become the largest entity within our industry at any cost; rather we strive to be recognized as valuable infra creators.

Our corporate governance principles reflect our core identity and the values that we hold in highest regard. They serve as a guiding force for our business and organizational conduct and how we navigate the complex corporate landscape.

The Board room is engulfed with ideas, constructive brainstorming, transparent sharing of thoughts, open house discussions for business reviews and strategy building exercises to grow the business adhering to core values of Trust, Passion and Quality.

ESG Initiatives

H.G. Infra embarked on a comprehensive year-long strategy to cultivate ESG awareness among stakeholders. This approach involved active engagement with both internal and external stakeholders

to discern their expectations. Concurrently, the company established robust systems to foster a mature and all-encompassing ESG culture.

In the environmental sphere, during FY23, HGIEL executed a series of impactful ESG initiatives, including substituting soil in embankments with inert material for environmental sustainability, installing Sewage Treatment Plants (STPs) at all project sites and labor camps to address wastewater concerns, employing water sprinkling methods for effective dust suppression, making the transition to grid electricity, thereby reducing reliance on diesel generators and minimizing environmental impact, reusing milling materials in road construction to promote resource conservation, incorporating eco-friendly elements like fly ash, pond ash, and plastic in road construction, designing a drainage system to capture stormwater at the construction camp, contributing to sustainable water management.

In the social realm, the company took the following ESG actions:

- Conducting safety induction and briefings for all workers.
- Implementing a lockout/tagout system to enhance workplace safety.
- Installing Automatic Safe Load Indicators (ASLI) in lifting appliances.
- Conducting risk assessments for occupational hazards.
- Disseminating safety training to all employees and workers.

These multifaceted initiatives underscore company's steadfast commitment to ESG principles, encompassing both environmental and social aspects, while fortifying its overall sustainability framework.

Dear Friends

We as a responsible company have vision and mission to uplift and transform the society. In our CSR endeavours, our responsibilities extend beyond our core operations as we remain firmly committed to our role in community welfare. In the fiscal year 2023, we allocated a sum of Rs. 6.59 cr towards Corporate Social Responsibility (CSR) initiatives aimed at education, healthcare, rural development, animal welfare, environmental sustainability and community development. To name a few meaningful activities -

HG did Holistic Rural Development Program (HRDP) drive to transform villages into "Model Village" by focusing on infrastructure, education, health, livelihood and natural resource management.

HG Ki Pathshala is our regular program which focuses on the adoption of government schools and tribal hostels to facilitate their holistic advancement.

HG Green Drive aims to plant trees with care and look after them to ensure their survival and growth, to contribute to environmental sustainability through the Barren community land transformation program, Rural livelihood support program and Urban plantation program. To further give boost to the green drive, we are planning to grow more than one lacs plants in this year.

HG has conducted many more such activities which has today touched and impacted lacs of people positively and fulfilled their fundamental needs of health & hygiene, education, livelihood, job creation, vocational training programs to lead their life happily. We are realising the dreams of youth, spreading smile in all section of society through our CSR activities.

You can refer to our annual report for more details on CSR.

Dear Shareholders

Before I conclude my speech, let me give you some lines on the business outlook and the way we foresee the growth trajectory to reinforce the confidence of our shareholders.

FY23 proved to be an outstanding year for HG Infra, marked by significant accomplishments. The company's market capitalization surged beyond Rs 5,000 Crore+ by March 31, 2023, reflecting a remarkable 38% increase from the previous year. This achievement was accompanied by the inclusion of H.G. Infra in the MSCI India Small Cap Index in February 2023, solidifying its growing recognition within the investment landscape.

As we see that there are abundant opportunities in infra space considering the focus of government, we are confident to further expand our business with addition of new projects with good margin, focus on diversification of our order book with diligent thoughts for bidding new projects. We would maintain the pace of order book with 2.5 times "book to bill", focus on destressing our balance sheet with monetization of HAM projects, timely completion of our running projects, clear revenue guidance, strong margins. As we move ahead in other segments, we would like to see the revenue stream getting consolidated from other segments from 10% to 25% in the coming years. We have proved our mettle in the road space and we are geared up to outperform in other segments too. Digital transformation and automation, strategic move to add controlled fleet of machines to increase the operational efficiency and our executional capabilities, quality hiring of more experienced manpower to build strong team, unwavering principles of governance and compliance, sustainability, disciplined growth in dynamically evolving industry are certainly in our cards to create value for each one of us and every stakeholder.

Before I conclude my speech, it is time to offer gratitude to God for blessing us and our sincere thanks to all our stakeholders – our Board members, auditors, lenders, financial institutions, rating agencies, regulatory authorities, vendors, and the very core of this organization- our employees and all other well-wishers who have relentlessly believed in us guided us, and supported us to make HG one of the most trusted name in this sector.

Let us continue our collaborative efforts toward the development of a better world with prayer- "Let there be peace and love all around in the life of entire humanity".

Thank you so much.