

BUY

TP: Rs 405 | ▲ 77%

**HG INFRA
ENGINEERING**

Infrastructure

13 August 2019

Revenue miss; expect steady growth momentum ahead

HG Infra's (HGIEL) Q1FY20 revenue grew 17% YoY to Rs 5.3bn but was below estimates due to delayed AD award for the Hapur-Moradabad project. EBITDA margin was healthy at 15.1% (15% est.). Lower interest cost and depreciation aided 27% YoY PAT growth to Rs 344mn (Rs 372 est.), while better recoveries cut gross debt to Rs 3.5bn (Rs 3.8bn as on Mar'19). The order backlog as on Jun'19 stands at Rs 57.1bn (2.7x TTM revenues). In light of the revenue miss, we crop FY20/FY21 EPS by 11%/5%; on rollover, our Jun'20 TP remains at Rs 405.

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Delayed appointed date causes miss on revenue: Q1 revenue grew 16.9% YoY to Rs 5.3bn vs. Rs 6bn estimated as the Hapur-Moradabad road EPC project received the appointed date (AD) later than expected (on 29-May). Better operating leverage saw margin rise 20bps YoY to 15.1% (15% est.), with EBITDA growth of 18.5% YoY. PAT grew 27% YoY to Rs 344mn supported by below-expected interest cost (aided by gross debt reduction) and depreciation (aided by a change in measurement of depreciation on plant & machinery).

HGIEL's order backlog as on Jun'19 was at Rs 57.1bn (2.7x TTM revenue), with the executable share at ~57%. Management expects ADs by Oct'19 for two HAM projects in Haryana, the Delhi-Vadodara (pkg 4) EPC project, and Goa airport project; thus, revenue could pick up pace from H2FY20.

FY20 guidance steady: Management maintained guidance of 25-30% revenue growth and EBITDA margins in the range of 15-16% in FY20. Capex is guided at ~Rs 500mn, gross debt at ~Rs 2.5bn as on Mar'20, receipt of mobilisation advances at Rs 2bn-2.5bn, and order inflows at Rs 40bn-45bn.

Maintain BUY: We trim FY20E/FY21E EPS by 11%/5% mainly due to below-expected revenues in Q1, but maintain our TP at Rs 405 on rolling valuations forward.

Ticker/Price	HGINFRA IN/Rs 228
Market cap	US\$ 208.8mn
Shares o/s	65mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 308/Rs 170
Promoter/FPI/DII	74%/2%/16%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	843	1,236	1,620	2,006	2,411
Adj. EPS (Rs)	20.3	19.0	24.9	30.8	37.0
Adj. EPS growth (%)	(31.7)	(6.4)	31.1	23.8	20.2
Adj. ROAE (%)	23.5	20.6	21.9	21.9	21.3
Adj. P/E (x)	11.3	12.0	9.2	7.4	6.2
EV/EBITDA (x)	7.9	5.5	4.7	3.9	3.4

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – STANDALONE QUARTERLY PERFORMANCE

Particulars (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Net Sales	5,261	4,502	16.9	5,800	(9.3)
Total Expenses	4,466	3,831	16.6	4,868	(8.3)
EBITDA	795	671	18.5	932	(14.7)
EBITDA margin (%)	15.1	14.9	21bps	16.1	(96bps)
Other Income	31	31	0.1	23	32.2
Depreciation	176	175	0.7	203	(13.1)
EBIT	650	527	23.4	753	(13.7)
EBIT margin (%)	12.3	11.7	65bps	13.0	(63bps)
Interest	123	115	6.5	164	(25.3)
PBT	527	411	28.1	588	(10.5)
Total tax	183	141	29.6	221	(17.2)
Effective tax rate (%)	34.7	34.3	39bps	37.6	(285bps)
Adjusted PAT	344	270	27.4	367	(6.4)
Extra ordinary items	-	-	-	-	-
Reported Profit After Tax	344	270	27.4	367	(6.4)
Adjusted PAT margin (%)	6.5	6.0	54bps	6.3	20bps
EPS (Rs)	5.3	4.1	27.4	5.6	(6.4)
% growth YoY					
Net Sales	16.9	36.0	-	15.1	-
EBITDA	18.5	45.5	-	18.4	-
Other Income	0.1	1,737.3	-	94.8	-
Interest	6.5	59.5	-	10.3	-
Depreciation	0.7	67.1	-	4.9	-
PBT	28.1	43.9	-	28.8	-
PAT	27.4	39.5	-	2.0	-
Reported PAT	27.4	39.5	-	2.0	-

Source: Company, BOBCAPS Research

Earnings call highlights

- HGIEL has identified a ~Rs 500bn NHAI EPC bid pipeline for participation. Key targeted projects are Delhi-Vadodara Expressway (13 packages worth ~Rs 130bn) and Amritsar-Jamnagar Expressway (4 packages worth ~Rs 40bn). Further, the company plans to participate in bids from UPEIDA (UP state projects), viz. Bundelkhand Expressway (worth ~Rs 90bn) and Gorakhpur Link Expressway (~Rs 30bn), to be executed on EPC basis.

According to management, NHAI awarding activity is likely to pick up from Sep-Oct'19. The UPEIDA projects are likely to be awarded by the end of Aug'19.

- Management expects order inflow of Rs 40bn-45bn in FY20 (nil inflows so far). Of this, the company estimates inflows of Rs 20bn-Rs 25bn from the road EPC segment (NHAI and UPEIDA) and the balance from a mix of

HAM road projects and subcontracting road EPC works (from Tata projects and one other client). The company shall bid for HAM contracts only on achieving 25-30% execution on the ongoing Gurgaon-Sohna NHAI contract and on attaining financial closure for the remaining two NHAI HAM works in Haryana.

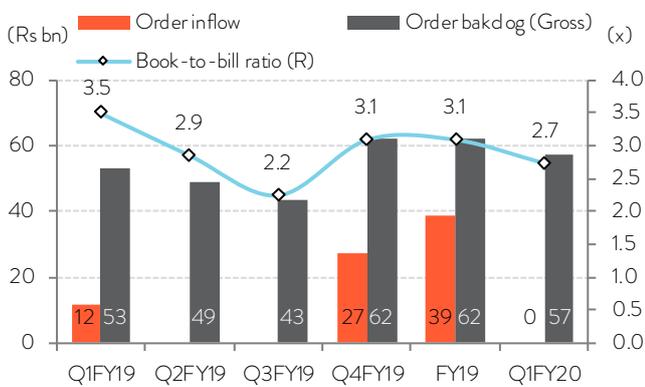
- The company has signed an agreement with NHAI in Aug'19 for the Delhi-Vadodara (Pkg 4) road EPC project. Land availability stands at 72% (expects 85-90% land in the next 15 days), and the AD is likely to be awarded by mid-to-end Sep'19.
- Receivables (includes retention) as on Jun'19 reduced to Rs 5.7bn (Rs 6.2bn as on Mar'19) led by recoveries of ~Rs 500mn. However, dues of Rs 1.85bn for a PWD-Rajasthan road project (funded by World Bank) were delayed, affecting overall receivables days. Management expects recovery of ~Rs 1bn of this amount in a couple of months. The project is under execution and the company has booked revenue of Rs 2.4bn (total project cost Rs 6bn). A delay in agreement finalisation between the state PWD and World Bank led to funding issues, but this is now in place.
- During the quarter, IPO proceeds of Rs 200mn were utilised for debt repayment. Gross debt declined by Rs 300mn QoQ to Rs 3.5bn (Rs 3.8bn as on Mar'19). Net D/E as on Jun'19 was 0.4x (unchanged YoY & QoQ).
- Balance equity requirement for the three HAM projects stands at ~Rs 2.6bn to be invested over the next two years. For Gurgaon-Sohna, the company has invested Rs 367mn so far vs. a total requirement of Rs 720mn. For the remaining two HAM contracts, the combined equity requirement stands at ~Rs 2.2bn.
- FY20 revenue breakup from new projects as guided by management is as under -
 - Hapur-Morababad (subcontracting work from IRB), two HAM projects from Haryana, Delhi-Vadodara EPC project: Rs 7bn-Rs 8bn, and
 - Goa Airport project: Rs 500mn (to be executed in 12 months).

FIG 2 – HAM PROJECTS: BALANCE EQUITY REQUIREMENT OF RS 2.6BN

Projects	Awarding authority	State	BPC (Rs mn)	EPC (Rs mn)	Equity requirement (Rs mn)	Balance equity requirement (Rs mn)	Status
Six-laning of Gurgaon-Sohna (Pkg-II)	NHAI	Haryana	6,060	5,150	720	353	AD: 30-Jan-19; 16% executed so far; Rs 367mn of equity invested
Four-laning of Rewari-Ateli Mandi	NHAI	Haryana	5,800	4,880	770	770	CA signed on 27-May-19; FC under progress (documents to be submitted to NHAI by 15-Sep-19); ~60% land available; AD likely by Oct-19
Six-laning of Ateli Mendi-Narnaul	NHAI	Haryana	9,521	8,010	1,450	1,450	CA signed on 27-May-19; FC under progress (documents to be submitted to NHAI by 15-Sep-19); ~60% land available; AD likely by Oct-19
Total			21,381	18,040	2,940	2,573	

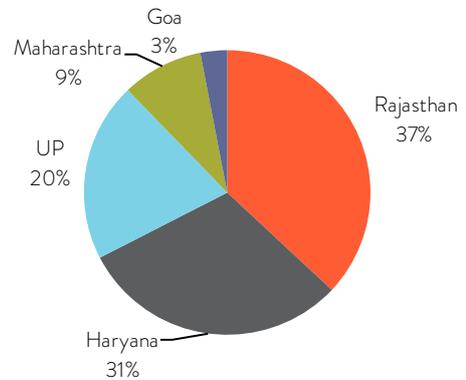
Source: Company, BOBCAPS Research | Note: AD – Appointed Date; BPC – Bid Project Cost; CA – Concession Agreement; FC – Financial Closure

FIG 3 – ORDER BACKLOG OF RS 57BN AS ON JUN'19



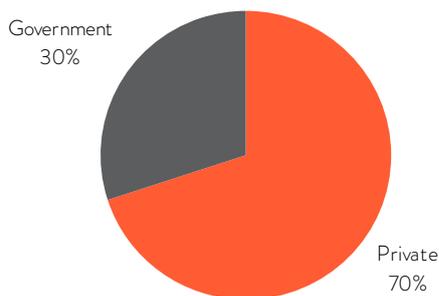
Source: Company, BOBCAPS Research

FIG 4 – ORDER BACKLOG BREAKUP BY STATE



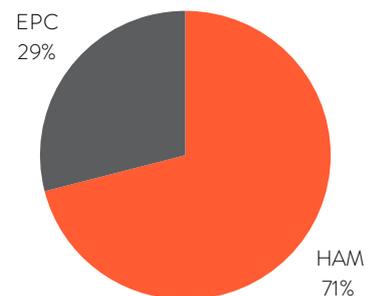
Source: Company, BOBCAPS Research

FIG 5 – ORDER BACKLOG BREAKUP BY CLIENT



Source: Company, BOBCAPS Research

FIG 6 – ORDER BACKLOG BREAKUP BY SEGMENT



Source: Company, BOBCAPS Research

Valuation methodology

We expect robust order win traction to drive revenue growth for HGIEL. A strong order backlog of Rs 57.1bn or 2.7x TTM revenues and favourable revenue mix lends visibility for a 21%/25% revenue/earnings CAGR over FY19-FY22. Backed by a well-managed balance sheet, we expect net D/E to improve to 0.3x by Mar'21 as against 0.4x as on Mar'19.

Key near-term catalysts for the company include the award of pending ADs in its HAM/EPC/airport projects, improvement in receivables from the Rajasthan state PWD project (will support debt reduction), and pick-up in awarding activity from NHA and states. Led by award of ADs, we expect the current order backlog to become 100% executable by end-Oct'19 – this should fuel higher execution from H2FY20.

The stock is trading at 8.5x/6.9x FY20E/FY21E standalone earnings, which excludes Rs 17/sh for the value of its HAM projects. We trim our FY20/FY21 EPS estimates by 10.6%/5.1% mainly to factor in below-expected revenues in Q1. We reiterate BUY and roll forward to a Jun'20 SOTP-based target price of Rs 405 (unchanged). For our SOTP model, we value the EPC business at Rs 388/sh (12x Jun'21E earnings) and HAM projects at Rs 17/sh (P/BV basis).

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	27,195	25,037	(7.9)	31,179	30,271	(2.9)
EBITDA	4,085	3,755	(8.1)	4,679	4,542	(2.9)
EBITDA margin (%)	15.0	15.0	(2bps)	15.0	15.0	0bps
Adjusted PAT	1,811	1,620	(10.6)	2,115	2,006	(5.1)
PAT margin (%)	6.7	6.5	(19bps)	6.8	6.6	(16bps)

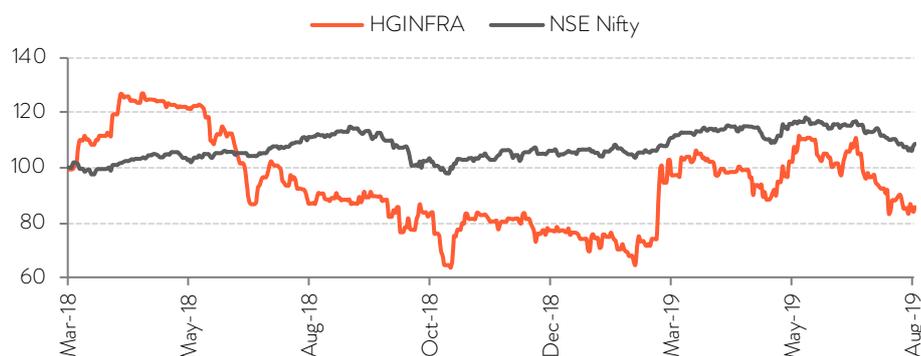
Source: Company, BOBCAPS Research

FIG 8 – SOTP-BASED JUN'20 TARGET PRICE OF RS 405

(Rs mn)	Basis of valuation	Value	Multiple (x)	Valuation	Per share (Rs)
Standalone business (EPC)	P/E on Jun'21E earnings	2,107	12	25,288	388
Value of subsidiaries	Equity investment as on Mar'20E - P/BV	1,119	-	1,119	17
-Gurgaon-Sohna (HAM)		576	1.0	576	9
-Rewari-Ateli Mandi (HAM)		193	1.0	193	3
-Ateli Mendi-Narnaul section		350	1.0	350	5
Total		3,226		26,407	405
Shares outstanding (mn)				65	

Source: Company, BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Political risk:** HGIEL has a strong presence in its home state of Rajasthan. Any slowdown in state government spending may affect the company’s growth prospects.
- **Downturn in road sector capex:** Capex in the road sector has witnessed some revival over the last two years. Any slowdown in project awarding would impact the company’s growth and our estimates.
- **Execution risk:** While HGIEL has strong execution skills, the planned entry into new segments and geographies exposes it to execution risks. Also, as the average size and complexity of projects increases, the company faces the challenge of completing large works within the stipulated time and cost. Execution delays due to land acquisition hurdles or other regulatory bottlenecks (such as delays in AD) could further affect HGIEL’s revenue.
- **Profitability risk:** Historically, HGIEL’s operating profit has been higher than peers due to its backward integrated model and concentration in the high-growth roads space in northern and western India. Any adverse development in these regions may lead to challenges in sustaining profitability. Further, any delay in payments from private clients can materially affect working capital levels, impacting the company’s balance sheet and earnings.

FINANCIALS (STANDALONE)

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	13,927	20,098	25,037	30,271	35,556
EBITDA	2,081	3,032	3,755	4,542	5,333
EBIT	1,542	2,278	2,901	3,534	4,199
Net interest income/(expenses)	(401)	(490)	(519)	(563)	(607)
Other income/(expenses)	47	115	110	113	114
Exceptional items	0	0	0	0	0
EBT	1,188	1,902	2,492	3,084	3,706
Income taxes	(345)	(667)	(872)	(1,078)	(1,295)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	843	1,236	1,620	2,006	2,411
Adjustments	0	0	0	0	0
Adjusted net profit	843	1,236	1,620	2,006	2,411

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	3,281	3,994	4,303	5,204	6,112
Other current liabilities	1,556	873	1,921	2,322	2,728
Provisions	93	163	203	246	363
Debt funds	4,058	3,803	3,356	3,756	3,138
Other liabilities	447	257	574	694	815
Equity capital	652	652	652	652	652
Reserves & surplus	4,757	5,940	7,521	9,488	11,859
Shareholders' fund	5,409	6,592	8,173	10,140	12,511
Total liabilities and equities	14,844	15,681	18,529	22,361	25,666
Cash and cash eq.	2,289	1,002	439	484	788
Accounts receivables	4,366	6,244	7,546	9,081	10,667
Inventories	1,068	1,161	1,721	2,082	2,445
Other current assets	2,010	1,596	1,855	2,273	2,705
Investments	0	200	1,119	2,496	2,940
Net fixed assets	4,119	4,619	4,365	4,157	4,023
CWIP	86	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	61	84	96	113	134
Other assets	846	776	1,389	1,675	1,965
Total assets	14,844	15,681	18,529	22,361	25,666

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,382	1,990	2,474	3,014	3,545
Interest expenses	401	490	519	563	607
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,708)	(1,601)	(1,032)	(1,153)	(1,139)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	74	879	1,961	2,424	3,013
Capital expenditures	(2,693)	(1,169)	(600)	(800)	(1,000)
Change in investments	0	(200)	(919)	(1,378)	(444)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,693)	(1,369)	(1,519)	(2,178)	(1,444)
Equities issued/Others	3,166	0	0	0	0
Debt raised/repaid	2,022	(255)	(447)	400	(618)
Interest expenses	(401)	(490)	(519)	(563)	(607)
Dividends paid	(39)	(39)	(39)	(39)	(39)
Other financing cash flows	(361)	(13)	0	0	0
Cash flow from financing	4,386	(798)	(1,005)	(203)	(1,264)
Changes in cash and cash eq.	1,767	(1,287)	(563)	44	304
Closing cash and cash eq.	2,250	1,002	439	484	788

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	20.3	19.0	24.9	30.8	37.0
Adjusted EPS	20.3	19.0	24.9	30.8	37.0
Dividend per share	0.5	0.5	0.5	0.5	0.5
Book value per share	83.0	101.2	125.4	155.6	192.0

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.2	0.8	0.7	0.6	0.5
EV/EBITDA	7.9	5.5	4.7	3.9	3.4
Adjusted P/E	11.3	12.0	9.2	7.4	6.2
P/BV	2.8	2.3	1.8	1.5	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	71.0	65.0	65.0	65.1	65.1
Interest burden (PBT/EBIT)	77.0	83.5	85.9	87.3	88.3
EBIT margin (EBIT/Revenue)	11.1	11.3	11.6	11.7	11.8
Asset turnover (Revenue/Avg TA)	135.4	131.7	146.4	148.1	148.1
Leverage (Avg TA/Avg Equity)	2.9	2.5	2.3	2.2	2.1
Adjusted ROAE	23.5	20.6	21.9	21.9	21.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	31.9	44.3	24.6	20.9	17.5
EBITDA	67.2	45.7	23.8	20.9	17.4
Adjusted EPS	(31.7)	(6.4)	31.1	23.8	20.2
Profitability & Return ratios (%)					
EBITDA margin	14.9	15.1	15.0	15.0	15.0
EBIT margin	11.1	11.3	11.6	11.7	11.8
Adjusted profit margin	6.1	6.1	6.5	6.6	6.8
Adjusted ROAE	23.5	20.6	21.9	21.9	21.3
ROCE	23.4	23.1	26.7	28.0	28.7
Working capital days (days)					
Receivables	114	113	110	110	110
Inventory	33	25	30	30	30
Payables	102	87	75	75	75
Ratios (x)					
Gross asset turnover	3.9	3.6	3.9	4.2	4.4
Current ratio	2.0	2.0	1.8	1.8	1.9
Net interest coverage ratio	3.8	4.6	5.6	6.3	6.9
Adjusted debt/equity	0.3	0.4	0.4	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: HG INFRA ENGINEERING (HGINFRA IN)



B – Buy, A – Add, R – Reduce, S – Sell

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