UPSIDE POTENTIAL 22%

KamayaKya

CIVIL CONSTRUCTION INDUSTRY

H.G. Infra Engineering Ltd. (HGIEL)

AS ON 22/12/2022 | MCap : ₹3624 Cr. | Risk Profile : Medium

NSE: HGINFRA | BSE: 541019 | Entry Price: Rs 556.2 | Target Price: Rs.681 | Duration: 12 months

EV/EBITDA: 6.51	OPM: 19%	D/E: 0.88	ROCE: 28%	Promoter Holding: 74.53%
Price to Sales: 0.93	NPM: 10%	Interest Coverage Ratio: 5.04	ROE: 30.05%	DII + FII: 14.22%

FUNDAMENTAL NOTES

HGIEL was incorporated in 2003 in Jodhpur, Rajasthan. The company is engaged in infrastructure development and construction of roads and highways across Rajasthan, Uttar Pradesh, Haryana, Maharashtra, Andhra Pradesh, and Telangana. They have a proven track record in successfully executing large-sized civil construction projects such as extension & grading of runways, railways and land development, and water pipeline projects. HGIEL is accredited AA class by the Public Works Department (PWD) of the Government of Rajasthan (GoR) and is also registered as an SS class contractor by the Military Engineer Services (MES). The company caters to a wide range of clients, including government and private. HGIEL has built a robust business model centered on complete integration coupled with a large fleet of in-house equipment and skilled manpower. HGIEL has 57% govt. orders & 43% pvt. orders. They are subcontractor for Tata Projects & IRB where margins are 0.5-1% less than the prime contractor.

TRIGGERS

1. GOVERNMENT PUSH FOR INFRASTRUCTURE SECTOR

- Road ministry allocation in FY23 budget was Rs. 1,99,108 Cr. vs Rs. 1,18,101 Cr. in FY22 (51.8% increase). The higher FY23 allocation for Road ministry is expected to be exhausted by Feb end of CY23. So, an even higher FY24 budgetary support would be required. MoRTH has set a target of 50 km/day of highway construction which translates to 18250 km of constructed road by FY24. As per our conservative estimates considering the historical per day construction which ranges from 25-36 km/day. We estimate 40 km/day (considering the huge push from the Government) construction which translates to 14600 km. Out of the total Rs. 111 lakh Cr. allocation to NIP, the total capex for road infrastructure will be Rs. 20.33 lakh Cr. for FY20-25. Total order pipeline is Rs. 80,000 Cr. in the road sector and out of this 25% is for EPC and 75% is for HAM.

2. ROBUST ORDER BOOK TO PROVIDE REVENUE VISIBILITY

- The company has total unexecuted order book of Rs. 10,851 Cr. (2.89x of FY22 sales) as of H1FY23 with 64% being EPC projects and 36% being HAM projects. We expect the company to grow its topline by 23% CAGR till FY24E, which translates to Rs. 5,700 Cr. by FY24 with EBIT margins of 15-16% (Management has given a revenue guidance of Rs. 6,000 Cr. for FY24). The company has been growing at 28% CAGR for the last 5 years and going forward we expect the company to grow by 23% CAGR till FY24.

3. METICULOUS SELECTION OF PROJECTS TO MAINTAIN MARGINS AND ROCE & HAM MONETISATATON FOR LIQUIDITY.

- HGIEL meticulously identifies the projects considering the cost optimization to maintain 15-16% margin profile. The extensive experience of the promoter and its engineering team empowers them to select appropriate projects that will suit its IRR. The company is actively working with three proposals in order to monetize its HAM assets at 30-40% premium of invested equity worth Rs. 350 Cr. at 12% discount rate. HGIEL expects to finalize the deal by end of FY23, though the amount will start flowing by FY24 in a gradual manner. The liquidity will provide cushion for further HAM projects' equity requirements.

4. DIVERSIFICATION OF THE BUSINESS TO REDUCE CONCENTRATION RISK

- HGIEL is actively bidding for the projects in Railways and Water infrastructure in order to reduce concentration towards Road business. The company has a target to have non road business as 25% of the total revenue going forward. The company is selective while choosing projects in these areas to maintain margin profile of 15-16%.

RISKS

1. The heightened competition in the road sector along with a steep increase in input costs (steel, cement, etc.) could exert pressure on the company's profitability. However, the presence of price escalation clauses in these contracts mitigates the risk to an extent.

2. MoRTH is considering to reduce HAM contribution from 40% to 20%, which will in turn lead to more equity requirement by the company, which will reduce the net worth. But the move will reduce the competition and will help companies like HGIEL to gain market share.

3. Higher interest rate will impact the overall profitability of the business considering the project loans.

4. The monsoon season is the deterrent factor for infrastructure business as it slows down the pace of execution.

5. The concentration of order book in road segment and execution remains a concern for HG Infra's business.