

HG Infra

Execution pick-up to drive further rerating

HG Infra (HG) reported an in-line revenue of INR 7.5bn with EBITDA/APAT coming in at INR 1.2/0.6bn, a beat of 6.9/6.5%. It expects FY23 revenue growth of 25% plus (INR 46bn) with an EBITDA margin of 15% plus on the back of a robust OB of INR 108bn. It expects INR 260mn of early completion bonus in Q3FY23. The order inflow (OI) in H1FY23 was INR 45bn with another INR 45bn expected in H2FY23. HG's largest project in its OB i.e. 150km of Ganga expressway's AD got delayed by 1.5months, translating to INR 3bn loss in revenue for FY23. It expects to complete INR 7/20bn worth of this project in FY23/24. HG is seeing reduced competition in HAM projects, with 8-10 players bidding on an average, vs. 13-15 players earlier. The company plans to monetise four HAM projects at a ~40% premium to book value of INR 3.5bn invested equity by Mar'23. Given robust order inflow and strong execution, we maintain BUY, with an increased TP of INR 1,013 (14x Sep-24E EPS) to factor in a higher level of execution and better EBITDA margin.

- Q2FY23 financial highlights:** HG reported a revenue of INR 7.5bn (+0.3/-29.4% YoY/QoQ, in line with the est.). EBITDA came in at INR 1.2bn (-0.9/-25.7% YoY/QoQ), a beat of 6.9%, owing to cooling off in input and raw material prices and lower employee cost, resulting in an EBITDA margin of 16.1% (-19/+81bps YoY/QoQ, vs. our estimate of 15%). RPAT/APAT was INR 646mn (-7.5/-33.8% YoY/QoQ, a beat of 6.5%). Additional INR 28bn of revenue is expected for H2FY23, with an EBITDA margin of over 15%. For FY24, INR 58-60bn is expected.
- Strong OB; robust bid pipeline:** In H1FY23, HG has been awarded INR 45bn worth of projects and expects another INR 45bn in H2FY23, with INR 32-35bn of projects coming in from the NHAI. With this, the OB as of Sep'22 stands at INR 108bn (c.3x FY22 revenue). The OB is well-diversified at the client level, with government/private orders contributing toward 57/43% of it. 64% of the OB consisted of EPC orders, whereas HAM orders formed 36% of it. Geography-wise, 40% of orders were from Uttar Pradesh, followed by Odisha, Telangana, Delhi, and Karnataka at 19%, 13%, 8% and 8%. HG has a strong bid pipeline of INR 150bn, with INR 110bn bid for NHAI projects and 40bn for water and railways projects.
- Comfortable balance sheet:** The standalone gross/net debt decreased to INR 3.9/3.5bn as of Sep'22 vs. INR 4.5/4.4bn as of Jun'22. HG has guided for an FY23 gross debt level of INR 3.5-4bn. In nine HAM projects, equity invested as of Sep'22 stands at INR 6bn, of the total INR 11.4bn required and the pending equity requirement is INR 5bn (INR 2bn in H2FY23, INR 2/1bn in FY24/25).

Standalone financial summary – INR mn

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	7,521	7,496	0.3	10,657	(29.4)	36,152	44,468	49,804	53,789
EBITDA	1,208	1,218	(0.9)	1,625	(25.7)	5,847	6,704	7,560	7,910
APAT	646	698	(7.5)	976	(33.8)	3,388	3,897	4,248	4,325
EPS (INR)	9.9	10.7	(7.5)	15.0	(33.8)	52.0	59.8	65.2	66.4
P/E (x)						10.4	9.1	8.3	8.2
EV/EBITDA (x)						6.5	5.9	5.1	4.6
RoE (%)						28.3	25.0	21.6	18.1

Standalone estimate change summary

Particulars	FY23E			FY24E			FY25E		
	New	Old	Chg.(%)	New	Old	Chg.(%)	New	Old	Chg.(%)
Revenues	44,468	44,468	-	49,804	47,136	5.7	53,789	-	-
EBITDA	6,704	6,704	-	7,560	7,047	7.3	7,910	-	-
EBITDA (%)	15.1	15.1	-	15.2	14.9	1.5	14.7	-	-
APAT	3,897	3,897	-	4,248	3,984	6.6	4,325	-	-

Source: Company, HSIE Research

BUY

CMP(as on 11 Nov 2022) INR 542

Target Price INR 1,013

NIFTY 18,350

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 980	INR 1,013	
EPS Change %	FY23E	FY24E	FY25E
	-	+6.6	-

KEY STOCK DATA

Bloomberg code	HGINFRA
No. of Shares (mn)	65
MCap (INR bn) / (\$ mn)	35/437
6m avg traded value (INR mn)	58
52 Week high / low	INR 749/481

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.1)	(2.1)	(24.0)
Relative (%)	(13.2)	(16.4)	(27.1)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	74.53	74.53
FIs & Local MFs	14.16	13.86
FPIs	0.58	0.62
Public & Others	10.73	10.99
Pledged Shares	-	-

Source: BSE

Parikshit D Kandpal, CFA

parikshid.kandpal@hdfcsec.com
+91-22-6171-7317

Manoj Rawat

manoj.rawat@hdfcsec.com
+91-22-6171-7358

Nikhil Kanodia

Nikhil.kanodia@hdfcsec.com
+91-22-6171-7362