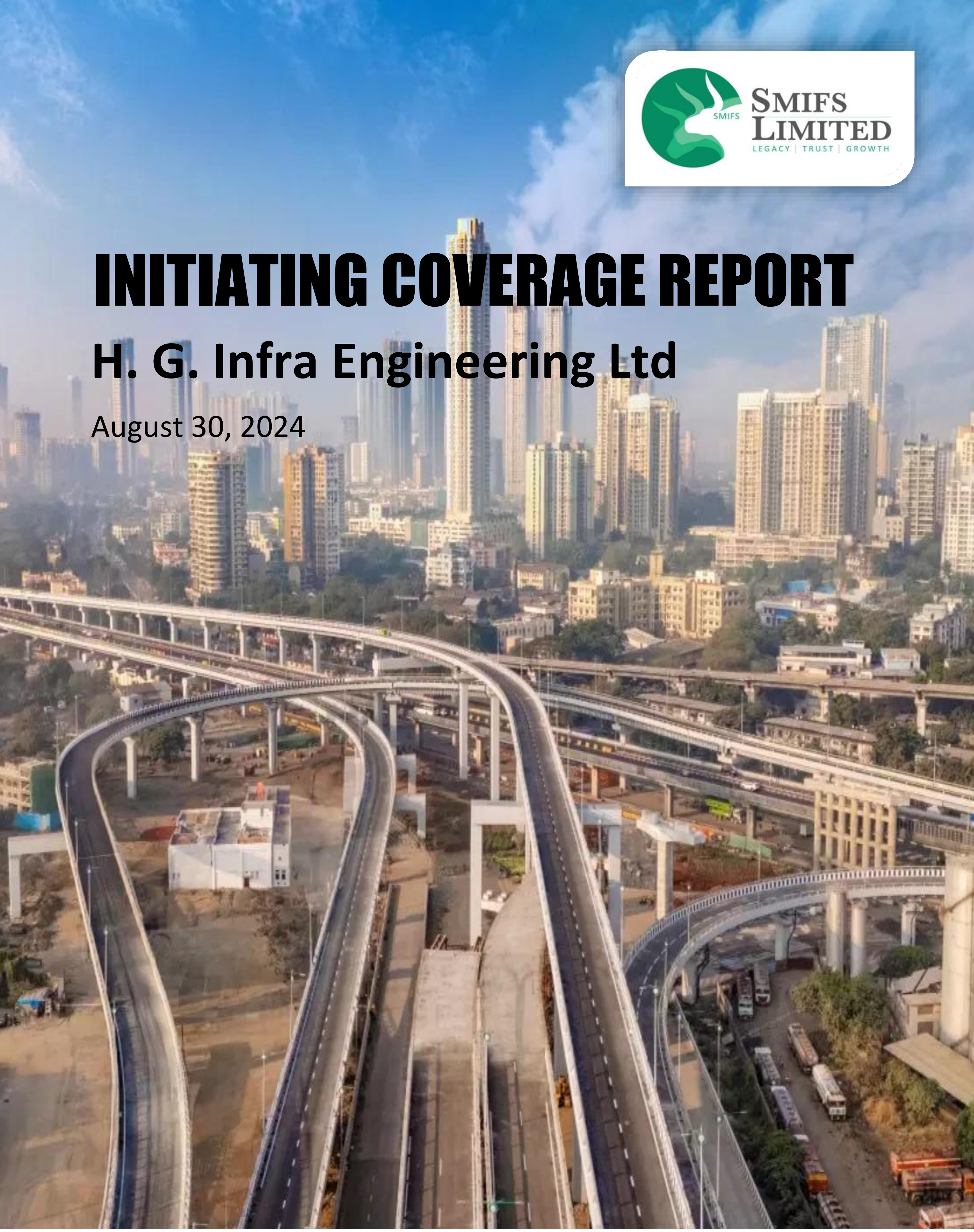

INITIATING COVERAGE REPORT

H. G. Infra Engineering Ltd

August 30, 2024

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Initiating Coverage l Infrastructure l 30 August 2024

SMIFS LIMITED
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H. G. Infra Engineering Ltd

An adept player; timely diversification to foster growth…

H.G. Infra Engineering Ltd (HG Infra), an infrastructure-focused company, has experienced a seamless journey in the roads and highways sector, benefited from healthy awarding by NHAI, augmented inflows through expanding pre-qualification, well-established relationships with fellow developers, and increasing presence in multiple states. Furthermore, the company has successfully ventured into the prominent allied-infrastructure sectors, unveiling significant opportunities for further growth. Thus, with the prospect of higher inflows and a comfortable current order backlog, it is poised for healthy growth in the near-to-medium term. Further, the company operates at an elevated margins aided by its adherence to bidding discipline, adoption of cluster-based strategy, and efficient operations. Although a slight moderation in margin is expected ahead due to the change in project mix favouring EPC jobs, it will still rank as one of the best within the industry. Balance sheet is skilfully managed by implementation of an asset-light model and through efficiently controlled working capital cycle. Moreover, its gross debt to remain under check, as funding requirements are to be achieved largely through the receipt of the pending fund from the monetized asset and the resilient cash flow generation. Given the strong outlook, we initiate coverage with BUY rating on the stock.

A prominent player in roads and highways sector; allied sector to participate handsomely

HG Infra has reaped substantial benefits by concentrating its efforts on the roads and highways industry, such as securing larger-scale projects and achieving greater profit margins. At the same time, it has successfully developed the essential technical and financial know-how, acquired the necessary construction machineries, and has built relationships with vendors and sub-contractors needed to establish itself as a key player. As a result, it is now eligible to bid for the majority of the NHAI, MoRTH and state-based projects. Further, its progression into different Indian states paved the way for increased opportunity. Additionally, strategic expansion into related industries such as railways, station redevelopment, solar power plant, and metro-rail has even opened up plethora of opportunities. Thus, we expect its order addition to stay strong at Rs100bn in FY25, Rs110bn in FY26 and Rs120bn in FY27, thereby complementing its existing order backlog to remain at heathy assurance. Overall, ~25-30% of inflows are likely to originate from non-roads segments. Nevertheless, the focus would be largely on EPC and HAM projects to uphold the asset light model.

Revenue to improve at 16.1% CAGR over FY24-27E, margin to remain among best in-industry

HG Infra has showcased an impressive 24.2% revenue CAGR during FY18-24, thanks to its strengthened order book position and enhanced project execution capabilities. Ahead, the momentum is set to continue, as the company is projected to achieve a 16.1% revenue CAGR over FY24-27E. This is likely to be fuelled by the comfortable order book position, healthy inflows, and an accelerated pace of execution. Additionally, its operating margin has consistently outperformed industry standards, remaining above 16% for the past four years. This exceptional performance can be attributed to discipline bidding, adoption of cluster-based model, and enhanced operational efficiency. Ahead, we expect a slight adjustment in margin to ~15.5% (by FY27E) due to higher contribution from EPC (roads and non-roads) projects. Effectively, at the net level, we project a 15.2% CAGR for adj. PAT over FY24-27E (to Rs7.1bn; vis-à-vis 32.9% CAGR reported over FY18-24).

Lean balance sheet structure to sustain; enhancement in working capital days anticipated

HG Infra has placed emphasis on preserving a streamlined balance sheet structure by employing an asset-light business model and efficiently handling the working capital cycle. Despite this, its gross debt on an absolute level has increased from Rs2.9bn at FY21-end to Rs6.2bn at Q1 FY25-end attributed to heightened capex and working capital demands. Ahead, the company has an equity requirement of Rs16.2bn towards existing HAM and solar projects during Q1 FY25-27E and expects to spend ~Rs4.5bn towards asset creation till FY27E. Despite this, we project a modest rise of ~Rs1.5bn in gross debt by FY27E-end, as the company's capability to generate strong operating cash flow (resulting from better profitability) and the deployment of funds from monetized assets, to prove beneficial. Further, a healthy mix of private and government projects, well-defined strategy for project selection, and efficient project management have helped HG Infra to maintain working capital days. Ahead, we expect it to be at <90 days (inc. unbilled rev).

View: With its strong order backlog, projected inflows, geographical and sectoral diversification, exceptional construction capabilities, elevated margins, an efficient balance sheet, and healthy return ratios, we are confident in the long-term business potential. At CMP, the stock (excl. investments) is trading at a valuation of 13.3x FY26E P/E and 11.0x FY27E P/E. We have adopted the SOTP valuation methodology and arrived at TP of Rs1,827/share. "**Initiating with BUY".**

Risks: Slowdown in awarding, margin moderation, and diversification towards asset-heavy models.

Rating: BUY	Return: 17.0%
Current Price: 1,562	Target Price: 1,827

|Market data

Bloomberg:	HGINFRA: IN
52-week H/L (Rs):	1,880/806
Mcap (Rs bn/USD bn):	101.8/1.2
Shares outstanding (mn):	65.2
Free float*	28.2%
Daily vol. (3M Avg.):	0.4mn
Face Value (Rs):	10
Group:	S&P BSE SmallCap

Source: Bloomberg, SMIFS Research

|Shareholding pattern (%)*

	Jun-24	Mar-24	Dec-23	Sept-23
Promoter	74.5	74.5	74.5	74.5
FIIs	2.0	1.7	1.6	1.7
DIIs	12.1	12.5	12.5	13.1
Public/others	11.3	11.3	11.5	10.7

|Pro. Pledging

Pledging	-	-	-	-

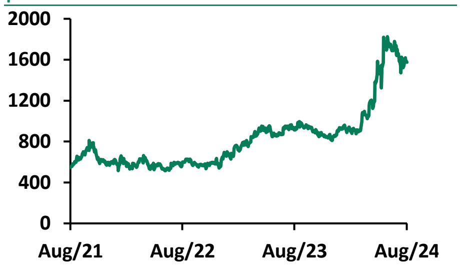
Source: BSE; * Promoter has sold 2.8% stake in a block deal during Aug'24

|Price performance (%) *

	1M	3M	12M	36M
NIFTY 50	1.5	12.2	30.4	49.1
NIFTY 500	1.3	12.8	39.9	64.9
HGINFRA: IN	-4.9	3.4	66.4	180.9

*as on 30th Aug'24; Source: AceEquity, SMIFS Research

|3 Year Price Chart



Source: NSE

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)*	EV/EBITDA (x)*
FY23	44,185	22.2	7,103	16.1	4,214	24.4	64.7	26.8	23.6	10.8	6.6
FY24	51,217	15.9	8,220	16.0	4,645	10.2	71.3	22.7	20.8	12.7	7.1
FY25E	59,958	17.1	9,477	15.8	5,362	15.4	82.3	20.6	19.6	19.0	10.8
FY26E	69,431	15.8	10,842	15.6	6,123	14.2	94.0	19.1	18.3	16.6	9.6
FY27E	80,081	15.3	12,447	15.5	7,098	15.9	108.9	18.4	17.6	14.3	8.3

Source: Company, SMIFS Research Estimates; *not adjusted for investments

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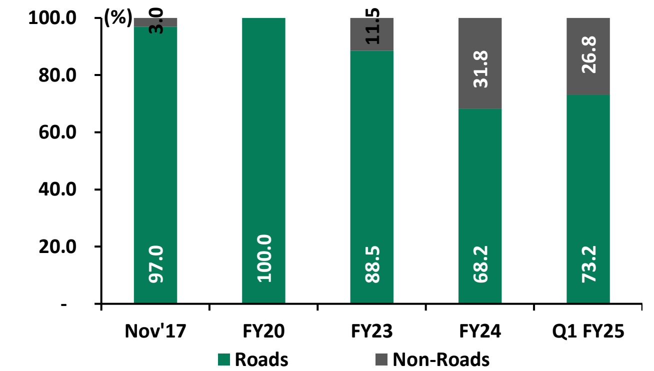
Investment Rationale

A prominent player in the roads and highways sector; qualified to bid for most of the projects in India

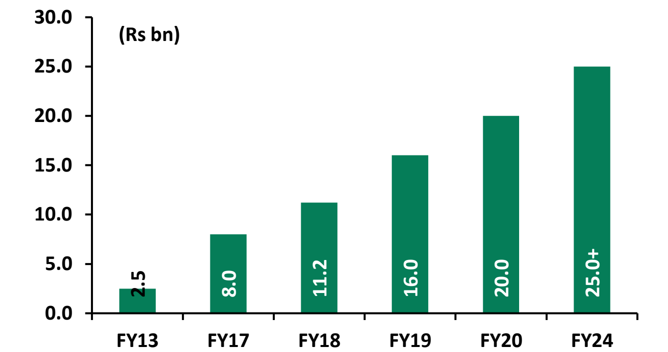
- HG Infra came into existence in 2003 as a result of the conversion of a partnership firm, M/S Hodal Singh Giriraj Singh & Co., Jodhpur, into a corporate entity. The primary objective of the partnership firm was to engage in the execution of projects pertaining to roads and highways, railways, irrigation, bridges, dams, and other infrastructure endeavours.
- However, the company subsequently decided to concentrate primarily on the roads and highways industry +upon recognizing the existence of more lucrative prospects, such as bigger ticket size projects, better profit margins, and timely payment schedules from the authorities/primary contractors. Having said that, it has acquired some contracts in areas outside of road construction on an opportunistic basis, however, its significance was negligible.
- We believe, the focus on a single segment has greatly contributed to HG Infra's success. Firstly, it allowed the company to develop the essential technical and financial capabilities required to handle projects of different sizes. Secondly, it enabled them to acquire modern construction equipment and a skilled workforce, which played a crucial role in executing projects efficiently. Lastly, single segment emphasis also facilitated the establishment of an efficient supply chain with vendors and raw material suppliers. This has bolstered its position as one of the primary road developers in India.
- At present, HG Infra is eligible to participate in NHAI's (incl. MoRTH) roads and highways project worth Rs25bn+, a significant increase from ~Rs2.5bn in FY13 and Rs11.2bn in FY18. This expansion in eligibility aided the company with greater opportunities for growth, especially since >95% of projects in the sector are valued at less than Rs25bn.

Fig 1: Roads segment contributed majority to the order backlog*



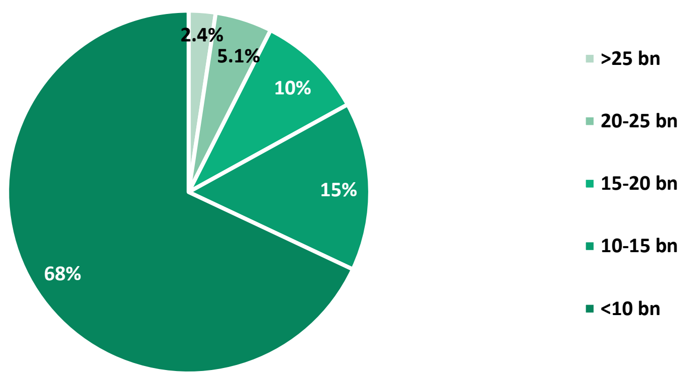
Source: Company, SMIFS Research; Note: *at the end of period

Fig 2: Pre-qualification has now improved to Rs25.0bn+*



Source: Company, SMIFS Research; Note: * for MoRTH's (incl. NHAI) roads projects

Fig 3: Enhanced pre-qualification enabled HG Infra to bid in the majority of NHAI's projects

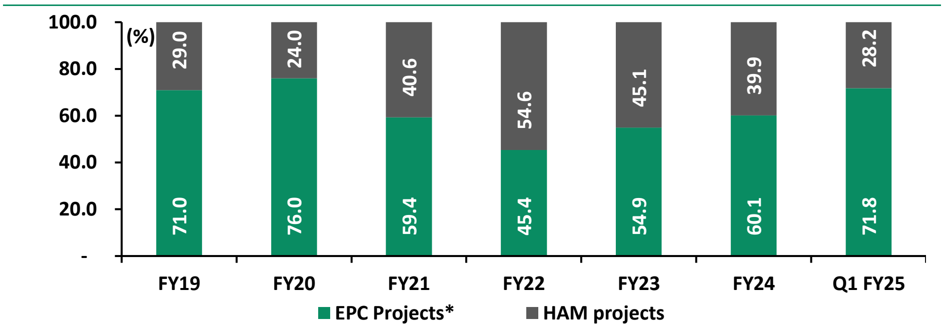


Source: NHAI, SMIFS Research; Note: The authority has awarded projects worth ~Rs1.26 trn during FY23

Emphasis remains on EPC and HAM road projects, avoidance of BOT jobs likely to continue

- When HG Infra made a deliberate decision to largely concentrate on roads and highways sector, the strategy was clear to exclusively focus on EPC projects to remain asset-light and ensure a lean balance sheet structure. Furthermore, NHAI's inclination towards the EPC (and HAM) projects for tendering in the past decade has proven to be advantageous, leading to a steady influx of new orders for the company.
- It has also desisted itself from pursuing hybrid annuity projects initially upon its introduction in 2016, citing concerns related to equity commitments, financial closure, promptness in annuity payments, and land acquisitions. However, a) only after ensuring successful implementation of the HAM model, b) observing a rise in other developers' interest, and c) a greater focus from the authority on awarding road projects through the HAM mode, the company decided to delve into HAM projects to drive sustainable business expansion. The decision turned out to be the right one, resulting in the company successfully acquiring more projects in better margins.
- The first HAM project was secured in the state of Haryana in Mar'18. Since then, it has managed to secure a total of 15 hybrid annuities (incl. L1 in two projects). However, throughout the process of acquiring these projects, the company has demonstrated a strong commitment to disciplined bidding and managed to secure these projects at an average premium of ~13.9% over authority's estimated bid project cost.
- The company has additionally exerted considerable efforts to proficiently manage a harmonized mix of EPC and HAM projects within order book. EPC projects generally yield lower margins but facilitate immediate execution, while HAM projects offer higher margins but typically commence execution after a year of achieving L1 date. However, irrespective of the situation, it has ensured to refrain from selecting/bidding for BOT projects directly, thus reducing the risks associated with traffic and toll-tariffs.
- Looking ahead, we anticipate that the bidding discipline will continue to be upheld. Furthermore, the commitment to prioritize EPC and HAM modes in the roads sector for future orders in the upcoming year is expected to yield positive outcomes.

Fig 4: Proficiently managed healthy mix of EPC and HAM projects in its order book



Source: Company, SMIFS Research; * EPC projects also includes non-roads segment projects in FY23, FY24 and Q1 FY25

Fig 5: Details of HAM projects secured till now

L1 date	Project Details	State	Length (in km)	Bid Project Cost (Rs bn)	Status
06-Mar-18	Gurgaon Sohna (Rajiv chowk)	Haryana	12.7	6.1	Achieved COD; Monetized
10-Jan-19	Rewari Ateli Mandi	Haryana	30.5	5.8	Achieved COD; Monetized
15-Feb-19	Ateli Narnaul Bypass	Haryana	40.8	9.5	Achieved COD; Monetized
26-Dec-19	Rewari-Bypass project (Pkg 4)	Haryana	14.4	5.2	Achieved PCOD
16-Mar-21	Khammam Devarapalle Pkg-1	Telangana	33.6	7.7	Under construction
23-Mar-21	Khammam Devarapalle Pkg-2	Telangana	29.5	6.4	Under construction
25-Mar-21	Raipur Visakhapatnam AP-1	Andhra Pradesh	31.8	10.6	Under construction
18-Oct-21	Raipur Visakhapatnam OD-5	Odisha	44.0	14.9	Under construction
18-Oct-21	Raipur Visakhapatnam OD-6	Odisha	45.5	11.2	Under construction
14-Dec-22	Karnal Munal Ring Road	Haryana	34.5	10.0	Under construction
16-Mar-23	Varanasi-Ranchi-Kolkata Highway P10	Jharkhand	35.6	13.0	Awaiting Appointed date
22-Mar-23	Varanasi-Ranchi-Kolkata Highway P13	Jharkhand	28.7	9.3	Awaiting Appointed date
08-Mar-24	Mallavaram-Renigunta (Pkg-2)	Andhra Pradesh	37.4	8.6	Awaiting Appointed date
25-Jul-24	Bahuvan Madar Majha to Jagarnathpur	Uttar Pradesh	63.8	7.6	Awaiting Appointed date
20-Aug-24	Narol Junction to Sarkhej Junction	Gujarat	10.6	7.8	Awaiting Appointed date

Source: Company, SMIFS Research

While awarding by NHAI to tilt more towards BOT projects; well-developed relationship with other contractors to provide incremental opportunities

- During its early days, HG Infra lacked the necessary credentials which largely restricted its ability to independently secure large ticket size projects directly from the authorities. Consequently, the company had to rely on other developers for subcontracting jobs or enter into joint ventures to qualify for various projects.
- Effectively, the company cultivated its relationship with renowned road developers by consistently securing multiple projects and fulfilling contractual obligations promptly. Notably, it was recognized by developers like L&T for its exceptional commitment to quality as a sub-contractor in its early days. Furthermore, the company has been rewarded with bonuses for completing certain projects ahead of its schedule. These accolades, combined with the company's diligent work ethic and proficiency in project execution, have bolstered its relationships with its clients, and facilitated the acquisition of new projects from other potential clients. The focus at that time was primarily on tier-I and II contractors such as IRB-Modern Road Makers, L&T, and Tata Projects.
- Presently, the company is actively involved in a subcontracting project viz. Ganga Expressway (Group-II), which was acquired from Adani Road Transport. This particular project holds a substantial total EPC value of ~Rs44.2bn. As of 30th Jun'24, the project is in progress and has successfully reached a completion of 67.5%. The outstanding value of the project amounts to Rs14.9bn.
- Looking ahead, it is anticipated that the NHAI will embrace a fresh approach by predominantly favouring the BOT mode for project awards, as opposed to the previous EPC and HAM modes. Consequently, companies with robust financial positions or those already involved in the BOT sector are expected to take the lead in securing such projects.
- Adani Enterprise, IRB Infrastructure Developers, L&T, GR Infra, and Ashoka Buildcon are among the companies predicted to actively engage in BOT projects. HG Infra, already having established relations with many of these firms, is in a prime position to secure major sub-contracting EPC assignments for such projects.
- Moreover, the company is actively exploring opportunities for collaboration with active financial partners and investors such as Highways Infrastructure Trust, Cube Highways, and NIIF. Under this arrangement, the company is expected to primarily concentrate on EPC construction, while the partner will address the majority of the project funding needs. Thus, this also grants the company an additional avenue to indirectly partake in the roads-BOT projects

Fig 6: Key projects executed/under-construction on EPC sub-contracting basis

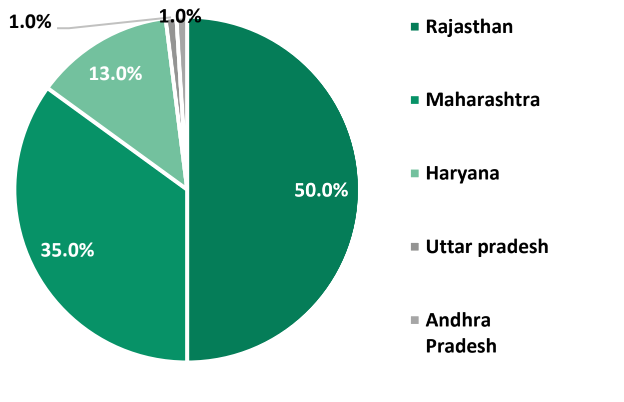
Project Details	COD/PCOD	State	Project Size (Rs. bn)	Primary Contractor
Yamuna Expressway	June'12	Uttar Pradesh	1.2	Jaypee Associates
Kishangarh-Ajmer-Beawar	June'13	Rajasthan	0.6	Isolux Corsan India Engineering & Construction
Warora-Chandrapur-Ballarpur-Bamni Road and Bridges	Aug'13	Maharashtra	2.7	IL&FS transportation Networks
Jaipur-Tonk-Deoli Section of NH- 12	Mar'14	Rajasthan	3.5	IRB-Modern Road Makers
Beawar-Pali-Pindwara Road Project	Nov'14	Rajasthan	0.6	L&T ECC, Infra IC
Renewal Coat on Jaipur-Kishangarh Section	Nov'15	Rajasthan	1.5	GVK Jaipur Expressway
Kaithal Rajasthan border section	Jul'17	Haryana	4.6	IRB-Modern Road Makers
Gulabpura to Chittorgarh	Jun'21	Rajasthan	7.1	IRB-Modern Road Makers
Hapur-Moradabad	July'22	Uttar Pradesh	11.7	IRB-Modern Road Makers
Mancherial to Repallewada	Dec'22	Telangana	9.5	Adani Road Transport
Ganga Expressway (Group II)	Under-Construction	Uttar Pradesh	44.2	Adani Road Transport

Source: Company, SMIFS Research

Geographical expansion in key states opened up more prospects; well-placed to become a PAN India player

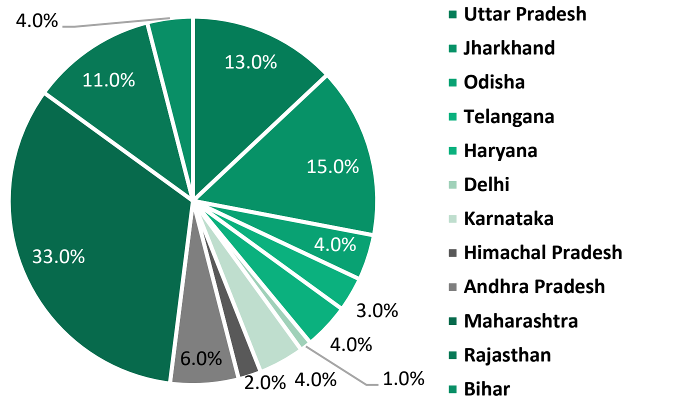
- Established in Jodhpur, HG Infra started its journey by seizing the opportunities available in Rajasthan. Through its well-established relationships with raw material suppliers, subcontractors, vendors, and local authorities, the company has successfully established a significant presence in the region.
- However, acknowledging the possible risk of exclusively operating within a single state, the company targeted neighbouring states such as Haryana, Maharashtra, and Uttar Pradesh to bag projects in FY18. After tasting the success, it progressively expanded its reach to states including Goa, Telangana, Chhattisgarh, Delhi, Odisha, and currently, it boasts projects spanning across thirteen prominent states in India. This expansion has granted the company enhanced prospects, greater inflows, and consequently, reduced the dependency on the single state.
- As of Jun'24-end, Maharashtra holds the largest proportion of the total order book, comprising 33%, with Jharkhand and Uttar Pradesh following at 15% and 13%, respectively. Rajasthan is next with an 11% share, while Andhra Pradesh accounts for 6%. Additionally, Haryana, Odisha, Karnataka, and Bihar each have a 4% share. Further, in Aug'24, the company has been awarded a new project by MoRTH in Gujarat, signifying its first project in this state.
- Ahead, HG Infra is committed to establishing a widespread presence across India by focusing on building a strong foothold in newly entered states and selectively exploring expansion opportunities in other important states. Additionally, as a prominent contractor eligible for most of the NHAI's projects, it is in a favourable position to secure orders with a wider range of bidding prospects.

Fig 7: 50% of order book had reliance on home state in FY18*



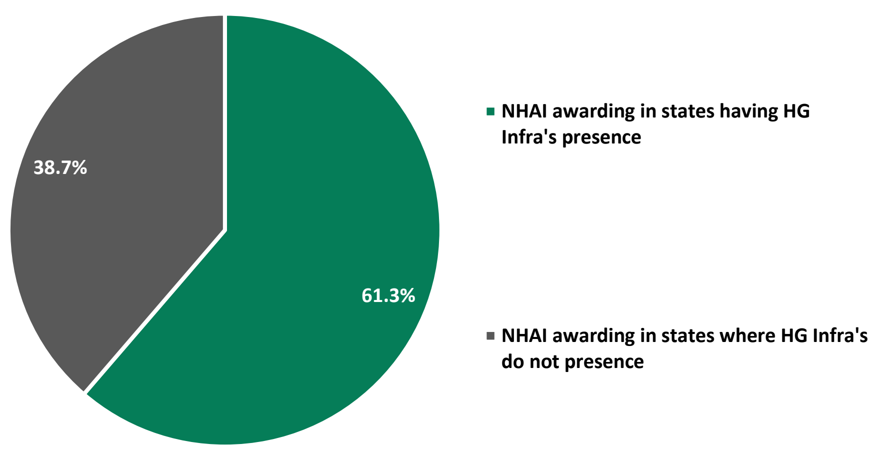
Source: Company, SMIFS Research; Note: * order book at FY18-end was ~Rs46.1bn

Fig 8: It now has diversified presence across major Indian states



Source: Company, SMIFS Research; order book stood at ~Rs156.4bn at Q1 FY25-end

Fig 9: Still 39%* of the total NHAI's opportunity is untapped by HG Infra



Source: NHAI, SMIFS Research; Note; *NHAI awarded projects worth ~Rs1.26 trn during FY23

Strategically diversifying itself into allied infrastructure sectors; metro-rail, railways, solar and water segments in radar

- The roads and highways segment currently constitute the majority of HG Infra's revenue and order book position. However, after experiencing significant growth and achieving decent size by primarily concentrating on a particular sector, it has directed its focus on other-infrastructure related sectors in the recent years.
- Further, NHAI in recent times has faced challenges in ramping up the awarding of road projects, hitting a peak of ~ 6,306 km in length and ~Rs1.6 trn in value during FY22. Hence, it is also logical to explore diversification into other infrastructure sectors that are closely related.
- The focus for diversification is primarily on: a) railway projects, which encompass the civil aspects of track laying, b) station redevelopment jobs, which entail the reconstruction of railway stations, c) water infrastructure works, which involves work in the schemes like Namami Gange (to rejuvenate the Ganga river), the Jal Jeevan Mission (rural drinking-water supply), Jal Shakti Abhiyan (rainwater harvesting) and waste water treatment, d) airport projects, which concentrate on the construction of runways and taxiways, and e) other infrastructure-related businesses such as metro-rail, and solar EPC works.
- Correspondingly, the company made significant progress in FY23 by winning three non-road projects, totalling an EPC potential of ~Rs15.3bn. Moving into FY24, it has successfully acquired several projects in the railways and solar power plant segments, with a cumulative value of ~Rs31.8bn (the company's share). Further, the company has entered an MoU with M/S Ultra Vibrant Solar Energy to acquire project development activities which holds value of ~Rs4.1bn (excl. taxes).
- With this, non-road segments (predominantly railways and solar projects), contribute 26.8% to the order backlog for Q1 FY25. Ahead, the company aims to increase this contribution of non-road projects to ~25-30% of order inflows in the upcoming two to three years.
- It has also established several verticals to manage operations and execution for upcoming projects in different non-road sector. This strategic move is aimed at achieving success similar to that of road projects and is expected to be operational soon. Furthermore, they have appointed individuals with extensive experience, including over 28 years as the President of Railways and Metro, and over 25 years as the President of Renewables. This decision reflects their commitment in expanding their presence into non-road segments.
- Overall, while we foresee that the roads and highways segment to remain the primary catalyst for HG Infra's growth, the company is likely to capitalize on supplementary business prospects in diverse infrastructure sectors, further enhancing its prospects for sustained success.

Fig 10: Key projects secured in non-roads segment in the recent past

L1 date	Details	State	Awarding Authority	Authority cost (in Rs bn)	Bid project cost (in Rs bn)
Dec-22	Elevated Viaduct and four Elevated station work (Janakpuri West to R.K. Ashram Corridor of Phase- IV of Delhi MRTS)	Delhi	Delhi Metro Rail Corp Ltd	NA	4.1
Jan-23	Bhanupali - Bilaspur Beri New Railway Line	Himachal Pradesh	Rail Vikas Nigam Ltd	5.4	4.7
Mar-23	Kanpur Central Railway Station redevelopment	Uttar Pradesh	North Central Railway	6.8	6.6
Jan-24	New BG Line between Dhule to Nardana	Maharashtra	Central Railway	7.4	6.1
Mar-24	Track doubling between Karanjgaon & Aurangabad station	Maharashtra	South Central Railway	4.3	3.8
Mar-24	Gaya-Son Nagar Section	Bihar	East Central Railway	7.7	6.0
Mar/Apr'24	Solar Power Plant across various region	Rajasthan	Jodhpur Vidyut Vitran Nigam Ltd and other entities	NA	13.1*
Jul'24	MoU with Ultra Vibrant Solar Energy	Rajasthan	Jodhpur Vidyut Vitran Nigam Ltd	NA	4.1*

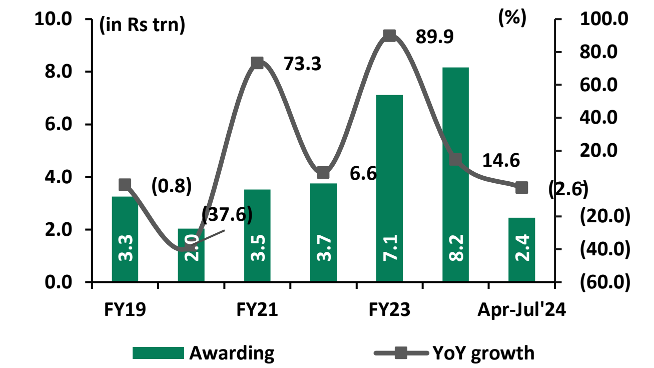
Source: Company, SMIFS Research; *company's share (excluding GST)

Infrastructure sector growing rapidly in the recent years; focus on larger, thriving segments aligns well

HG Infra is positioned favourably to attract substantial inflows over the medium-to-long term with a strong infrastructure development and significant growth in targeted sub-segments.

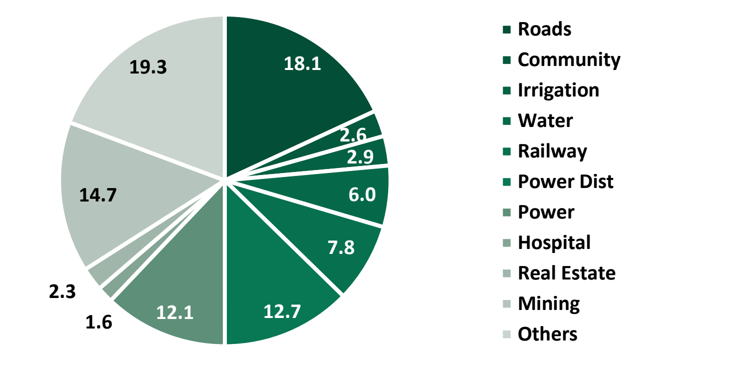
- **India's Infrastructure industry expanding at healthy pace.** The Indian infrastructure industry has demonstrated a robust ~14% CAGR in awarding over FY13-24, driven by investments in projects related to roads and highways, water and irrigation, hospitals, real estate, mining, and urban infrastructure. Notably, in FY23, the project awards experienced a remarkable ~90% YoY surge, reaching a total of Rs7.1 trn. On the larger base, the momentum continued in FY24, witnessing healthy 14.6% YoY growth (to ~Rs8.2 trn). While the code-of-conduct implementation due to the General Election had impacted the project awarding during Apr-July'24 (down 2.6% YoY to Rs2.4 trn), we see it a temporary phenomenon. Having said that, we anticipate the positive trend to persist in the medium to longer term due to strong focus on infrastructure development driving economic growth and social transformation.

Fig 11: Momentum in project awards continued during FY24*



Source: Industry, SMIFS Research; *while temporary pause seen in YTD FY25

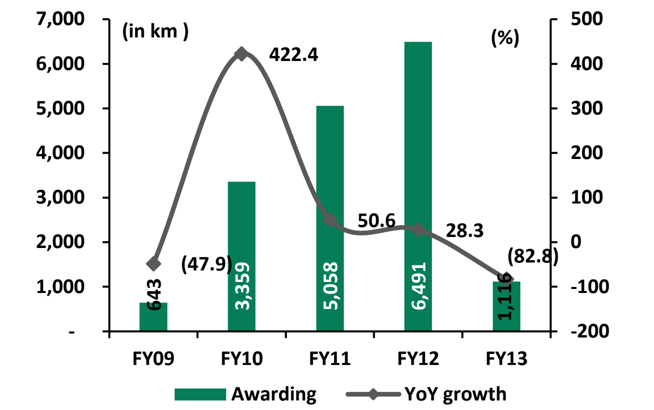
Fig 12: Mining, roads, water & power forms major pie in awarding*



Source: Industry, SMIFS Research; * Project awarding during FY24

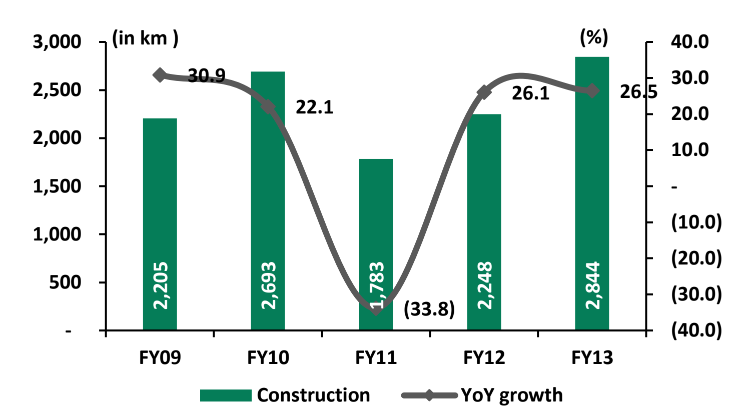
- **Roads and Highways sector experienced remarkable growth over the past decade:** Activities in roads and highways sectors, both in terms of awarding and construction, has been robust over the past decade. This positive development can be credited to a) the government's strong focus on road infrastructure creation, b) NHAI's strategic shift towards predominantly utilizing EPC and HAM routes for contract awards, c) the authority ensuring projects are granted an appointed date only when they have secured over 80% of land availability, d) obtaining forest and environmental clearances prior to project awards in most cases, and e) receiving backing from lenders and banks for financial closures.
    - **Awarding cycle generally resets with the General Election:** We have observed that MoRTH/NHAI's awarding process usually aligns with the General Election cycle, resetting during/one year prior to the Election year and showing gradual improvement until the next General Election.
        - To understand more, project awarding by NHAI experienced a significant surge during FY09-12, up from 643km in FY09 to 6,491km in FY12. During this period, the primary focus was on promoting private sector involvement through the BOT mode and reducing the government's financial burden. However, the sector faced various challenges, including difficulties/delays in land acquisition, intense competition, sluggish traffic growth due to economic downturn, and high interest rates. Consequently, the awarding activities were adversely affected in FY13. Even the construction activities remained sluggish and failed to exceed 2,900 km in any given year within the mentioned timeframe.

Fig 13: Project awarding took hit in FY13 after strong awarding*



Source: NHAI, Industry, SMIFS Research ; * Construction by NHAI

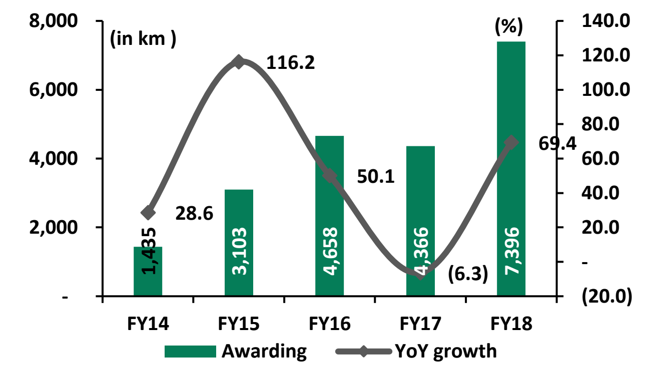
Fig 14: Fluctuation seen in road construction activities during FY09-13*



Source: NHAI, Industry, SMIFS Research; * Construction by NHAI

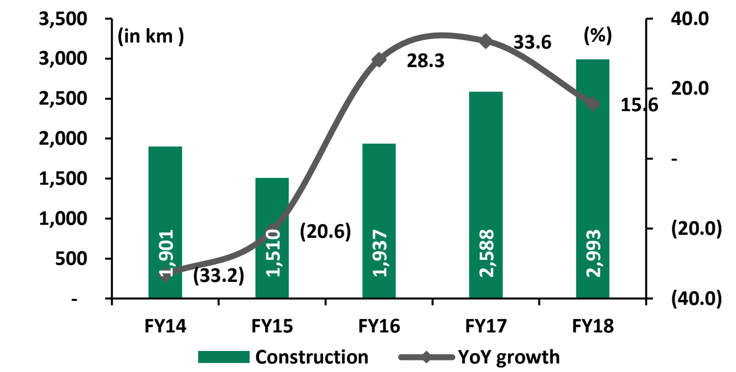
- After the new government was elected in 2014, decision was made to allocate projects through the EPC route for the subsequent two years instead of erstwhile BOT model. This choice was made because PPP modes were deemed economically unfeasible at that point in time, and several contractors were not willing to take projects via PPP model having burnt their hands in the cycle of FY09-13. In 2016, hybrid annuities were introduced in order to bring back the participation of private developers in funding the projects. This model allowed NHAI to award more projects efficiently and able to garner interests from contractors with semi-annually annuity payments (thus, no traffic-related risk for the contractors).
- Effectively, FY14-18 period has seen upcycle in awarding activities with improvement from 1,435km in FY14 to 7,396km in FY18. The robust awarding also aided construction activities to improve, up from 1,901km in FY14 to 2,993km in FY18.

Fig 15: Awarding improved to lifetime high in FY18*



Source: NHAI, Industry, SMIFS Research; Note: * Awarding by NHAI

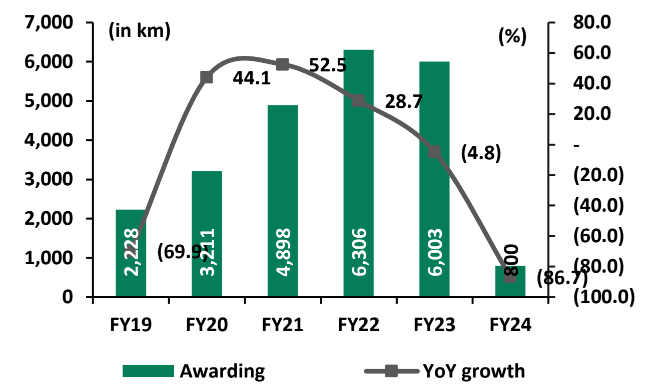
Fig 16: Improvement in awarding led to higher construction activities*



Source: NHAI, Industry, SMIFS Research; Note: * Construction by NHAI

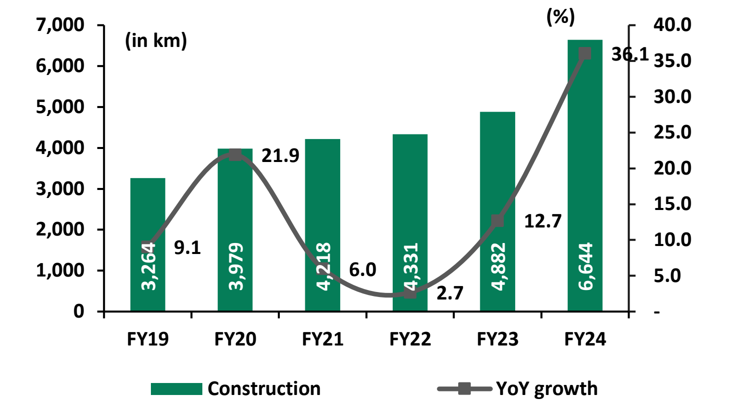
- In 2019 (the election year), decline in tendering activity was seen with length of project awards stood at ~2,228km in FY19. It is impacted by the code of conduct implementation during Mar'19 (as tendering activities by NHAI tends to be robust in the Q4). On the other hand, construction activities saw an improvement, reaching 3,264km (a growth of 9.1% YoY).
- After the reset of the cycle, activities from NHAI consistently improved as indicated with 6,003 km of project awarding and 4,882 km of construction (in FY23). However, tendering activity in FY24 was disappointing due to the shift in NHAI's strategy to ~80% land availability at the time of awarding (instead of on the appointed date) and pending cabinet approval for the revised cost of Bharatmala Pariyojana (Phase-I). Code of conduct due to the General Election also had impact to some extent.

Fig 17: Awarding peaked at ~6,300 km in FY22 during FY19-24*



Source: NHAI, Industry, SMIFS Research; * Construction by NHAI

Fig 18: Construction activities continue to improve*



Source: NHAI, Industry, SMIFS Research; * Construction by NHAI

- Ahead, we expect the awarding to pick up from FY25 and likely to see the upward trend over next 3-4 years, which would enable contractors to build their order book strongly and grow further.

- **Awarding via Bharatmala Pariyojana Phase-I reached 26,425 km; Vision 2047 to pave way for further.** The development of 34,800 km of National Highway length was planned under Phase-I of Bharatmala Pariyojana, with an estimated cost of Rs5.35 trn. Launched in 2017, the programme was anticipated to be completed by 2022.
  - As of 31st Mar'24, NHAI has awarded contracts for 26,425 km under the programme, representing ~76% of the total length. Out of this, 17,411 km has been successfully completed. As 17,389 km still pending to be constructed, the government has decided to extend the project's completion deadline to 2028, providing an additional six years compared to the original schedule.
  - The sanctioned cost of projects that have been awarded have already touched ~Rs8.5 trn, while actual spending stood at Rs4.6 trn till Mar'24-end. With this, the programme's estimated cost is expected to witness a significant increase of over 100% and above Rs11.0 trn.
  - The ministry has attributed the variance between the actual project awarding cost and the earlier estimated cost to rising raw material costs, increased expenses for land acquisition, higher construction of high-speed corridors, and an increase in GST rates for select commodities. In the future, the authority might prioritize the BOT model for projects that have not yet been awarded to manage expenditures.
  - It is possible that the government may introduce a new highway construction program that aligns with India's vision for 2047, as set by the current government. This program aims to build up to 50,000km of access-controlled highways and expressways, replacing the existing Bharatmala Pariyojana. As a result, the remaining award under Phase -I of ~8,375km along with proposed projects under phase -II (of ~8,500km) would get accommodate with the Vision-2047 plan. The focus will be on balancing the funding requirements by awarding projects through BOT, EPC, and HAM routes.

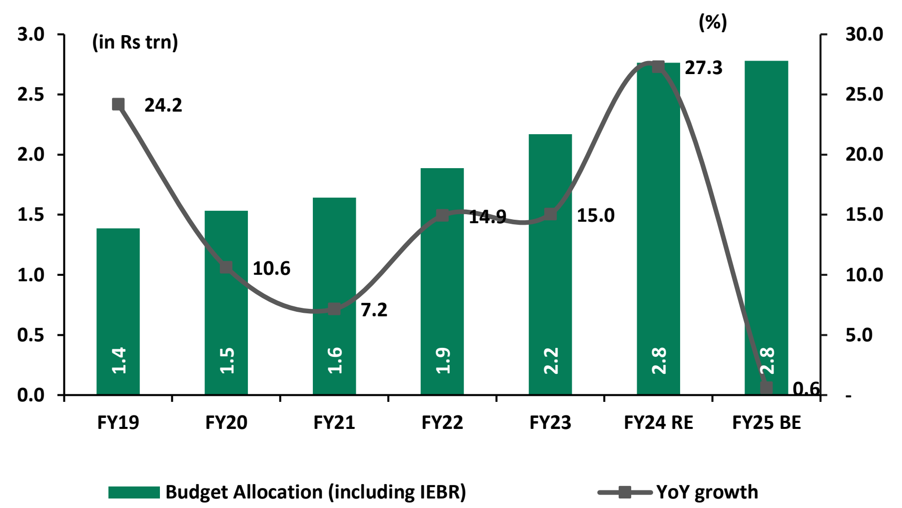
Fig 19: Detailed plan of Bharatmala Pariyojana (Phase-I)

Particular	Length (in Km)	Outlay (in Rs bn)
Components under Phase-I of Bharatmala Pariyojana		
Economic Corridor Development	9,000	1,200
Inter-corridors and Feeder Roads	6,000	800
National Corridor Efficiency Improvement	5,000	1,000
Border & International Connectivity Roads	2,000	250
Coastal & Port Connectivity Roads	2,000	200
Expressways	800	400
Sub-total (A)	24,800	3,850
Balance Road works under NHDP	10,000	1,500
Total	**34,800**	**5,350**

Source: NHAI, Industry, SMIFS Research

- **Budgetary allocation has been on the rise, set at Rs2.8 trn for FY25.** There has been a notable increase in the allocation of funds for the roads and highways sector over the past decade, crucial for sustaining the expanding road construction projects. Moreover, the inclination towards EPC and HAM modes for project execution has maintained the funding needs at a heightened level. Additionally, the rise in concern over the NHAI's debt (~Rs3.4 trn presently) has led to the complete elimination of the Internal and Extra Budgetary Resources (IEBR) support.
    - The Ministry's total expenditure for FY25 is projected at Rs2.8 trn, marking the highest amount in any given year. This figure represents a twofold increase from the spending in FY19.
    - 61% of the total expenditure is directed towards NHAI, with the rest mainly going to other roads divisions.
    - We foresee a continued high allocation if the government continues to award projects through EPC and HAM mode. Nonetheless, a potential exists for a decrease in allocation if the government switches to BOT mode for tendering activities, which would result in reduced funding requirement for construction in such projects.

Fig 20: Consistent rise in budgetary allocation seen towards roads and highways sector



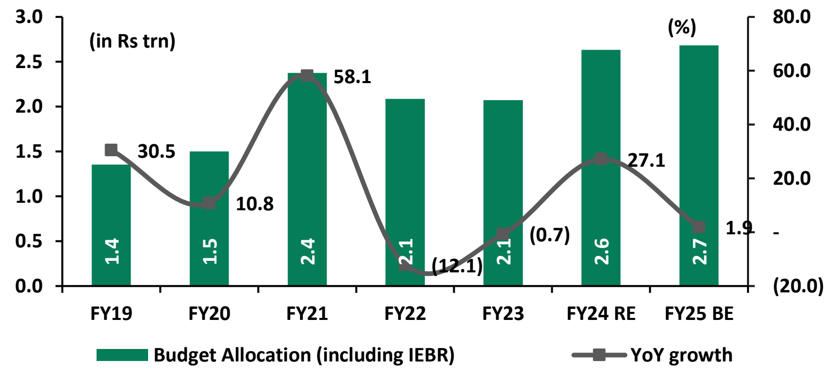
Source: Budget Documents, SMIFS Research

- **MoRTH has revised the BOT model concession agreement in order to enhance clarity and acceptability.** The aim is to incentivise private sector player to invest in creation of road infrastructure and to remove major ambiguities in the existing agreements. Some of the key amendments for capacity augmentation includes construction support to the concessionaire to complete projects on time and longer tolling period to tide away losses on account of competing roads.
    - Performance guarantee: The concessionaire shall for the performance of its obligations during the construction period, provide irrevocable bank guarantee no later than 180 days from the date of the agreement. Until performance guarantee comes into effect, bid security remains in force. However, earlier, performance security was fixed at the higher of ~5% of total project cost and the anticipated toll revenues for 12 months. Now, it has reduced to 3% of estimated project cost.
    - Right of Way (RoW): The authority shall make best effort to provide RoW in respect of all land within 180 days from the appointed date. In the event for the delay, the works corresponding to RoW not provided deemed to be removed from the scope of the project and provisions are done accordingly. Earlier, there were no clarity on timeline of pending RoW.
    - Deemed termination upon delay in achieving the appointed date: If the appointed date does not occur in one year/or extended period due to any reason pertaining to the authority, claims arising out of the agreement need to be waived/ceased by the concessionaire. However, if the reason is attributable solely to the concessionaire, the performance security will be encased to the extent of 1% of total project cost.
    - Monthly Progress reports: The concessionaire must provide a monthly report on the physical and financial advancement of the construction activities within 7 days after the end of each month. Additionally, they must promptly supply any other necessary information requested by the Independent Engineer. Previously, this report was mandated to be sent to the authority and independent engineer. However, it is now necessary to deliver this report to the lender's representative as well. Furthermore, the concessionaire is also now obligated to submit a detailed report highlighting the movements of all construction vehicles through GPS tracking.
    - Access to escrow account: The authority now has the privilege to access and download the account statement of the escrow account at any given time throughout the concession period. This measure is implemented to prevent project delays/or do not get stuck caused by insufficient funds.
    - Delays in construction: If the Concessionaire fails to meet any of the Project Milestones or if the Independent Engineer determines that the progress of construction works is unlikely to be achieved by scheduled date, it has to be notified to the Concessionaire at earliest. Further, the Concessionaire must communicate to the Independent Engineer within 15 days of receiving such notice with the detailed steps it plans to take to expedite progress. Accordingly, revised schedule needs to submitted. Additionally, in the event that the independent engineer notifies that the progress achieved in any consecutive three-month falls below 75%, the authority reserves the right to initiate termination.
    - Change in Scope: Upon reception of notification regarding a change in scope from the authority, the concessionaire is required to submit a proposal backed by in-detailed due diligence outlining a) the effect on the completion date/schedule, b) the breakdown of additional quantities, rates, and costs for various items, and c) any suggested design alterations/modifications. The detailing regarding commodities and its rates are further mentioned in the model concession agreement (regarding the utilization of the circle rate from the state's PWD (NH), MoRTH standard data book, etc). The detailing, however, was missing earlier.

- Equity and construction support: The maximum equity support allowed is the amount stated in the bid, not surpassing 50% of the equity. Additionally, the combined total of equity and construction support (construction support is the projected toll revenue during construction; payments for construction support are released in 10 stages based on physical progress) is capped at 40% of the total project cost. Previously, construction support was not offered.
- Commercial Operation Date (COD): If the COD is not achieved within 91 days after the scheduled date (unless the delays are caused by reasons attributable to the authority), the concessionaire is required to compensate the authority at a rate of 0.1% of the performance security amount for each day of delay until the COD is reached. Earlier, the timeframe was 180 days and then the penalties was required to be paid.
- Competing roads: It is stipulated in the MCA that neither the authority nor any government agencies is allowed to build a competing road until the 10th anniversary of the existing road's appointed date. However, this restriction does not apply if the average traffic on the project highway exceeds 90% of its designed capacity in any given year. In case of failure to fulfil the obligations, the authority is obligated to provide a) compensation in a sum equal to the difference between the average daily Realisable Fee and the projected daily Fee (amount equal to average daily fee, increased at 0.5% every month) until the breach is cured. However, there was no timeline earlier for the payment, now it has been mentioned to paid on following target date. Also, extension of the concession agreement is also allowed now (vis-à-vis only payment of compensation earlier).
- Change in ownership: The updated eligibility criteria for ownership change now mandate the issuance of COD, and the completion of Punch List items, with the exception of those delayed due to reasons attributed to the Authority. Previously, the completion of punch list items was mandatory, regardless of the issues pertaining to the Authority. Additionally, the transfer of ownership can now take place after 1 year of COD (previously: 2 years) for BOT projects.
- We believe, the amendments made to the model concession agreements for BOT projects are predominantly advantageous for the private sector, as they provide improved clarity on matters related to the capacity expansion and compensation to be paid by the authority, among other issues. At this time, the estimated value of the BOT pipeline is over Rs2.0 trn, distributed across 50+ distinct projects. Companies like Adani Road Transport, IRB Infrastructure Developers, L&T, Ashoka Buildcon, GR Infra, and others are expected to actively engage in such projects.

- **Lacklustre investments in railways sector led to sharp decline in market share; necessary steps being taken to revive the sector.** India boasts the fourth largest railway network in the world, ranking after the US, China, and Russia, with ~1.3 lakh km of rail routes. Also, the Indian railways are known for its effectiveness in long-distance travel and transportation of bulk goods, as well as being an economical mode of conveyance. However, investments in the railway sector had been subdued compared to other infrastructure allied sectors (such as roads and power), although it picked up required pace since 2016 due to the government's focus on improving connectivity.
  - The railway network in India has failed to keep up with the rapid economic and traffic growth of the country, with an increase of just ~2.5x since the Independent India. Specifically, total length of railway tracks has expanded from ~51,000 km in 1947 to 126,366 km in 2024. Due to this, its significance as the backbone of the transport economy has diminished over the years. In fact, the share of railways in freight transport has steadily declined from ~85% in 1951 to ~60% in 1991, and by 2024, it only accounted for 27-28% of the total freight movement.
  - However, the government has recognized the significance of rail transportation, particularly in the movement of goods. As a result, they have introduced a National Rail Plan in 2020 with the primary objective of raising the rail share to ~45% in total freight transportation by 2030. Currently, freight transportation contributes ~70% to the revenue of Indian Railways and holds immense potential, which is expected to be harnessed through an increased market share. Conversely, the government subsidizes the passenger segment as part of its social service obligation and has limited potential to gain.
  - As a steppingstone towards this goal, it has also set a target of loading 3,000mn tons of freight by 2027 (vis-à-vis 1,591mn tons in FY24, 1,512mn tons in FY23, and 1,161mn tons in FY18). This target to be aided by a) infrastructure upgradation in the form of accelerated electrification of tracks, gauge conversion, doubling of tracks and decongestion of the over-utilized rail network, b) development of new terminals and Inland Container Depots, c) single wagon policy covering all wagon types with innovative designs, d) upgradation of speeds, and e) increasing budgetary allocations along with some private sector participations.
  - While new packages are being progressively commissioned for traffic in the Eastern and Western Dedicated Freight Corridors, new Dedicated Freight Corridors have also been identified. Further, the expansion of rail networks in Jammu and Kashmir and North-eastern region is being emphasized.
  - Many new improvements such as self-designed Vande Bharat Express, Tejas Express, Vista dome Coaches, new signalling Systems, high Speed wagons, Kisan Rail, and Solar powered passenger coaches have also been undertaken to attract passenger segment and increase passengers share in total transportation.
  - In terms of budgetary allocation, the Railway ministry's total expenditure for FY25 is projected at ~Rs2.6 trn, marking the highest amount in any given year. This figure represents a twofold increase from the spending in FY19. Out of these, ~Rs1.2 trn is targeted towards new lines, gauge conversion, and EPC related work and provides such opportunities for EPC companies like HG Infra.

Fig 21: Budgetary allocation is consistently getting better



Source: Budget Documents, SMIFS Research

- **The emphasis on redeveloping railway stations has been rekindled, presents enduring opportunities in the medium run**
  - Railway stations have historically served as facilitators for the transportation of people and goods. However, with the growth of urban populations, residents/authorities of these cities have begun to realize the untapped potential of the spaces surrounding railway stations. Stations are now envisioned as versatile urban hubs, capable of serving multiple functions.
  - In line with this, the railway ministry has introduced Amrit Bharat Station Scheme in 2023 to improve and modernize railway stations across the Indian Railways network. Out of ~7,335 railway stations in India, 1,321 have been selected for redevelopment, with many already in various stages of construction post the foundation stone laying for 553 stations during Feb'24. These stations are likely to be redeveloped at a cost of ~Rs190.0bn. Earlier, 1,251 number of stations have already been developed under 'Adarsh Stations Scheme' from 2010-2023.
  - The process of station redevelopment entails the development of the comprehensive strategies and their implementation in stages to improve different aspects of station facilities. These improvements encompass enhancing station accessibility, waiting areas, restroom facilities, installing lifts and escalators as necessary, maintaining cleanliness, providing complimentary Wi-Fi, establishing kiosks for local products, upgrading passenger information systems, creating Executive Lounges, allocating spaces for business meetings, incorporating landscaping, and addressing the specific needs of each station.
  - Railway Land Development Authority and various railway authorities such as North East Frontier Railway, East Central Railway, North West Railway are given the task for unlocking the vast real estate potential of Railway land.
  - We have observed that the redevelopment project has a substantial order size, with numerous projects exceeding Rs2.0bn ticket size. Further, the cost of redeveloping certain projects, like the CSMT station in Mumbai, has reached ~Rs24.5bn. Since many projects are still awaiting awarding, there is an opportunity for various players to secure station redevelopment opportunities.

Fig 22: Major projects awarded in station redevelopment

Station	Railway (Zone)	State	Executing Agency	Status	Cost (Rs bn)	Contractor
Mumbai CSMT	Central	Maharashtra	RLDA	Under-execution	24.5	Ahluwalia Contracts
Ahmedabad	Western	Gujarat	RLDA	Under-execution	24.0	DMRC-DRA JV
Surat	Western	Gujarat	SITCO/RLDA	Under-execution	14.8	Girdhari Lal Constructions Pvt Ltd
Charbagh (Lucknow)	Northern	Uttar Pradesh	RLDA	Under-execution	5.0	RPP Infra Projects and P&C Projects
Nagpur	Central	Maharashtra	RLDA	Under-execution	4.9	Girdhari Lal Constructions Pvt Ltd
Chandigarh	Northern	Chandigarh	RLDA	Under-execution	4.6	Ahluwalia Contracts
Rani Kamlapati	West Central	Madhya Pradesh	RLDA	Commissioned	4.5	Bansal Group
Muzaffarpur	East Central	Bihar	RLDA	Under-execution	4.5	Ram Kripal Singh Construction Pvt. Ltd
Gomtinagar	North Eastern	Uttar Pradesh	RLDA	2nd phase in progress	3.9	BL Kashyap

Source: Railways, Industry, Media Reports, SMIFS Research

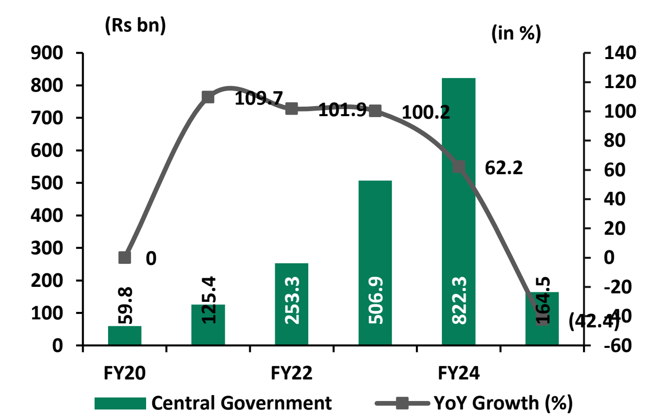
Fig 23: Key projects at tendering/planning stage

Station	Railway (Zone)	State/Union Territory	Mode of tender	Executing Agency	Status	Estimated Cost (Rs bn)
New Delhi	Northern	Delhi	EPC	RLDA	EPC Tender invited	47.0
Thane	Central	Maharashtra	EPC	RLDA	Planning in progress	10.0
Kalyan	Central	Maharashtra	PPP	-	Planning in progress	9.0
Bhagalpur	Eastern	Bihar	EPC	ER	Planning in progress	4.8
Thiruvananthapuram	Southern	Kerala	EPC	SR	EPC Tender invited	4.4
Hatia	Eastern	Jharkhand	EPC	ER	EPC Tender invited	3.6
Darbhanga	East Central	Bihar	EPC	ECR	EPC Tender invited	3.1
Hyderabad	South Central	Telangana	EPC	SCR	EPC Tender invited and opened; tender under evaluation	3.1
Khandwa	Central	Madhya Pradesh	EPC	CR	Planning in progress	3.0
Gurgaon	Northern	Haryana	EPC	RLDA	EPC Tender invited	3.0

Source: Railways, Industry, Media Reports, SMIFS Research

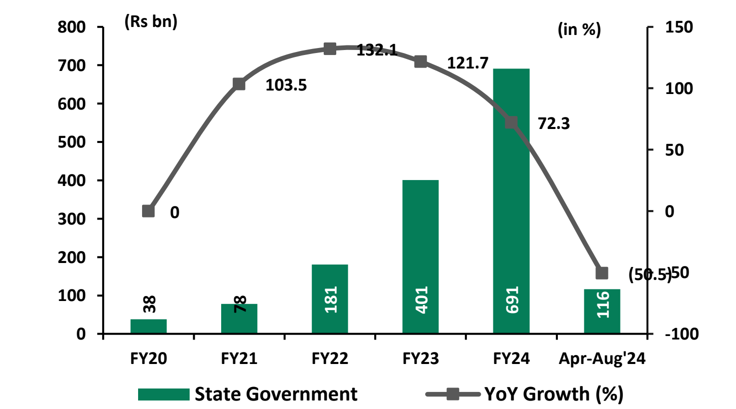
- **The Jal Jeevan Mission continues to make steady progress, offering a substantial opportunity of ~Rs1.2 trn waiting to be seized**
  - The Har Ghar Jal scheme was introduced by the Ministry of Jal Shakti as part of the Jal Jeevan Mission. Its goal was to guarantee access to tap water for every rural household by 2024, by providing 55 ltrs of water per person on daily basis. Although the scheme was announced during the 2019 budget, the actual implementation began on 15th Aug'19.
  - The initiative was a refined version of the National Rural Drinking Water Programme and has been restructured to boost its implementation. Pani Samitis now comprise of 10-15 members, with a minimum of half being women. These members are chosen from Self-Help Groups, Anganwadi teachers, and other relevant bodies. The committees cooperate to develop a one-time action plan for the village that maximizes the use of all available resources, and this plan must be sanctioned by a Gram Sabha before being executed.
  - Local requirements play a crucial role in determining the selection of suitable technologies for water supply systems. These requirements encompass factors such as the accessibility and purity of water sources (such as rivers, ponds, or borewells), geographical features, weather patterns, socio-economic factors, and community preferences. Various examples of appropriate technologies include solar-powered pumps, gravity-fed systems, rainwater harvesting structures, household water treatment devices, and so on.
  - Union Territories rely solely on funding from the central government, while the North-eastern and Hill States receive 90% coverage for project costs. Cities with a population of <1mn get 50% funding, those with a population between 1mn and 10mn receive 33%, and cities with a population 10mn+ gets 25%. The total cost was estimated to be ~Rs3.6 trn (average expense: Rs22,400 per household).
  - With 193mn rural households in India, only 32mn households (16.8%) had tap water connections by 15th Aug'19. As a result, the remaining households without connections totalled 161mn.
  - Since the launch of the programme, tap water connections have been facilitated to an incremental 119mn households. Thus, the total number of households with access to water connections has reached 151mn. However, there are still ~42mn households that have not yet been connected to the tap water supply.
  - As of Aug'24, the total spending has reached ~Rs3.4 trn, with an average of ~Rs29,000 per house. Based on the current average cost, the opportunity for the remaining houses amounts to ~Rs1.2 trn.
  - As on Aug'24, 11 states and UT have achieved ~100% status. These includes Goa, Andaman and Nicobar, Puducherry, Dadra & Nagar Haveli - Daman and Diu, Haryana, Telangana, Gujarat, Punjab, Himachal Pradesh, Arunachal Pradesh, and Mizoram. Further, Bihar, Uttarakhand, Ladakh, and Nagaland has achieved 90%+.

Fig 24: Expenditure by the Central government growing rapidly



Source: Industry, SMIFS Research

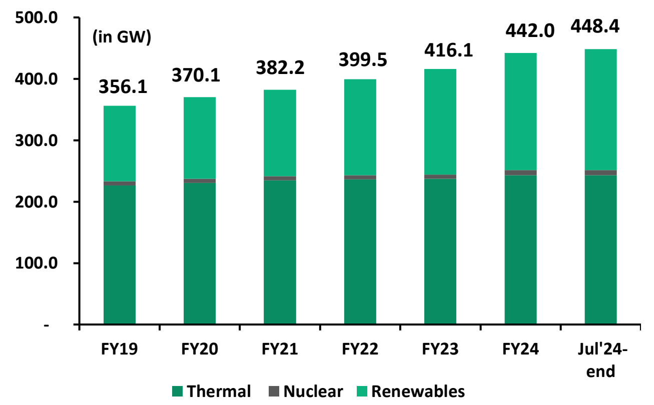
Fig 25: Likewise, state government expenditure has also improved



Source: Industry, SMIFS Research

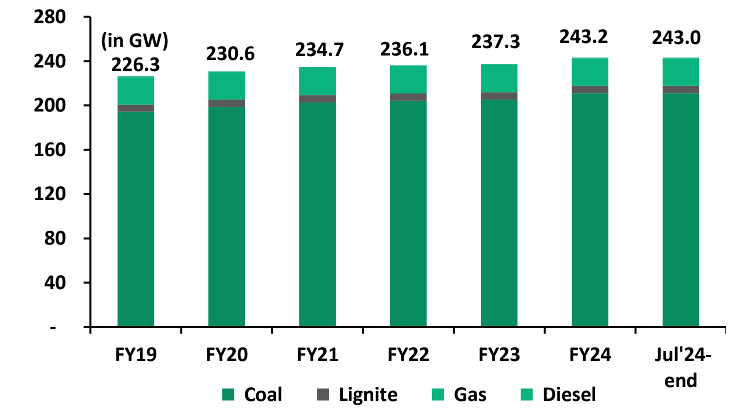
- **The solar power sector presents a lucrative EPC opportunity of ~Rs 8.0 trn**
  - The Indian power sector has successfully been revamped, from a state of power insufficiency to one of power sufficiency by augmenting the generation capacity by 194 GW over the period from FY14 to FY24. As of 31st Jul'24, the total installed capacity for power generation (excluding captive capacity) stood at ~448 GW, with 243 GW coming from thermal sources, 197 GW from renewable sources, and 8 GW from nuclear sources.
  - The renewable energy sector experienced a notable growth in capacity, with an addition of 115 GW during FY14-24. Among renewables, Solar power saw the largest increase of 79 GW, supported by government efforts to promote grid connected rooftop programme. Wind power added 24.8 GW, while hydro and bio power sources accounted for the remaining capacity. Effectively, India currently holds the fourth position in the work for renewable energy installed capacity (including large hydro plants).
  - Thermal capacity also increased by 75 GW over FY14-24, with coal, lignite, and gas contributing 66 GW, 7 GW, and 3 GW respectively.
  - Furthermore, with the goal of achieving 500 GW of renewable energy capacity by 2030 and meeting 50% of its electricity needs from renewable sources, solar power installations are projected to assist with 280 GW, while wind power is set to contribute 100 GW. Effectively, ~190 GW of solar power capacity is likely to be added over next six years.
  - The total cost of a 1 GW solar installation (EPC) in India is estimated to be ~Rs40.0-50.0bn. This indicates that the solar EPC industry provides opportunity of ~Rs8.0 trn over the next six years provided 200GW of capacity gets added.

Fig 26: All-India power capacity has reached 448 GW in Jul'24



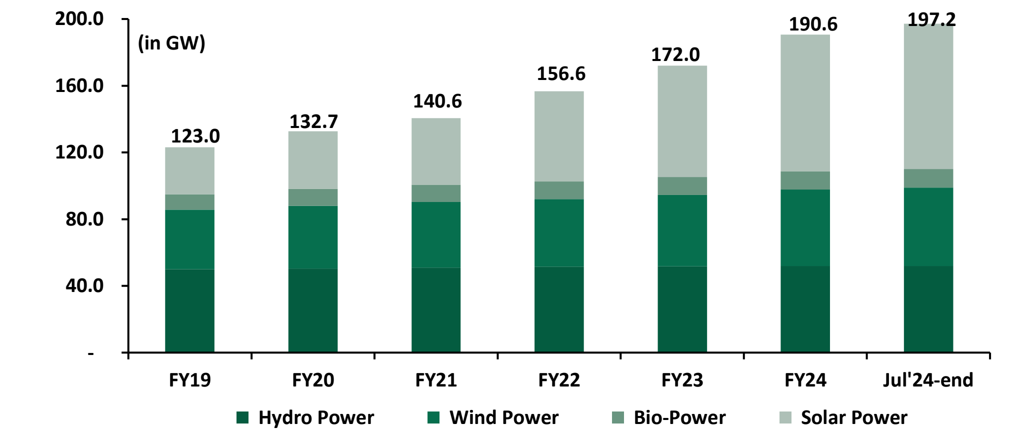
Source: Industry, SMIFS Research

Fig 27: Despite being key contributor, thermal addition slowed down



Source: Industry, SMIFS Research

Fig 28: However, Solar capacity addition led to significant rise in overall renewable capacity

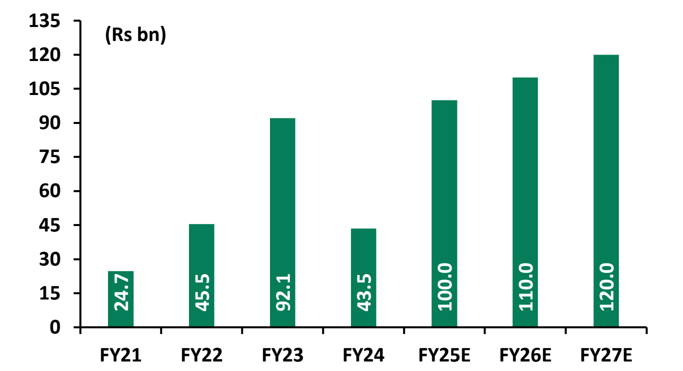


Source: Industry, SMIFS Research

The non-roads segment has played a crucial role in bolstering the order book position; Inflows to remain strong with mammoth of opportunities

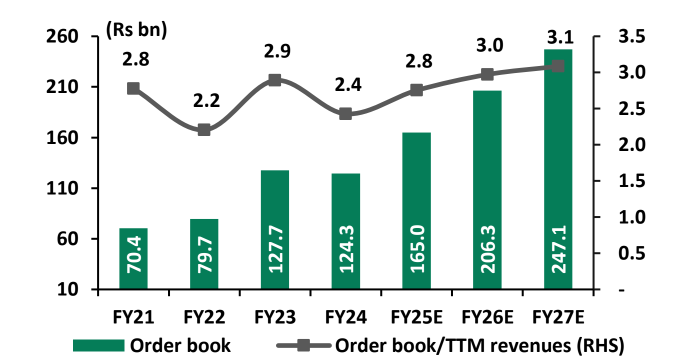
- HG Infra has benefited from a considerable enhancement in the pre-qualification criteria, resulting in an increased number of awards directly from NHAI. Additionally, larger ticket size projects, well-developed relationship with other large developers, and geographical and sectoral diversification strategy has also yielded positive results, with strong inflows being a notable outcome.
- To highlight, the company has successfully secured orders (incl. change in scope) worth Rs24.7bn in FY21, which further increased to Rs45.5bn in FY22. However, it was in FY23 that the company witnessed its most successful year, with an outstanding addition of Rs92.1bn in orders. This exceptional accomplishment can be primarily attributed to the significant-ticket size of Ganga Expressway project, commendable awards from NHAI, and contributions from the non-roads segment.
- During FY24, the company had initially projected to secure projects worth ~Rs60.0-80.0bn. However, the lack of significant awards from NHAI has had a negative impact on the overall order addition. Despite this setback, the company has successfully managed to secure orders amounting to ~Rs43.5bn (excl. change in scope). Its diversification into non-roads sectors played a crucial role in this achievement. Notably, they won orders worth Rs15.9bn in the railways segment and Rs13.1bn in solar EPC power plant projects. Additionally, the company was able to secure two projects from NHAI, one in the EPC category and another in the HAM category, totalling ~Rs14.5bn.
- Effectively, the order backlog at FY24-end amounted to Rs124.3bn, ensuring 2.4x FY24 revenues. In May'24, the company has been declared as the L1 bidder by the Maharashtra State Road Development Corp (MSRDC) for the construction of two packages of Nagpur-Chandrapur Access Controlled Expressway. These packages, with a combined EPC value of Rs41.4bn, have been secured at a premium of ~29% over the authority's estimated cost.
- As a consequence, the order backlog at Q1 FY25-end has risen to Rs156.4bn (2.9x TTM revenues). The road (HAM) represented 28.2% of the overall order backlog, while the road (EPC) contributed 45.0%. The expansion into the non-road segment led to a 26.8% share of the order backlog as of Q1 FY25-end.
- Further, post Q1 FY25, the company has successfully acquired two more projects from the Ministry of Road Transport and Highways (MoRTH) through HAM, having a combined bid project cost of Rs15.4bn. This development has led to an enhancement of the order book currently to ~Rs171.8bn.
- Overall, the management has guided for order addition of Rs110-Rs120bn for FY25. They anticipate that ~Rs80bn likely to get contributed from the roads segment, while the remaining ~Rs30-40bn to be added by the non-roads segment.
- Taking a conservative stance, we predict an order addition of ~Rs100bn in FY25E, Rs110bn in FY26E, Rs120bn in FY27E. Out of these, ~25-30% contribution are likely from the non-roads' segments. In effect, its order book position to remain strong.

Fig 29: Inflows to improve on strong industry-wide awarding



Source: Company, SMIFS Research Estimates

Fig 30: Healthy order addition would aid OB to remain elevated



Source: Company, SMIFS Research Estimates

Impressive headway in key projects; newer projects to take the helm

- **Ganga Expressway (Group II).** This EPC sub-contracting project for HG Infra, valued at ~Rs44.2bn (excluding GST) for a length of 151.7 km, was awarded by Adani Road Transport and marks as the highest order value achieved by the company till date. With the appointed date secured on 3rd Nov'22, the project execution is progressing smoothly.
  - Adani Road Transport and IRB Infra have been chosen as the preferred contractors for Ganga expressway project located in Uttar Pradesh on 30th Nov'21. Uttar Pradesh Expressways Industrial Development Authority (UPEIDA; the authority) awarded this project to the developers on a BOT-toll basis, granting them tolling rights for a period of 30 years. IRB Infra successfully secured Group I, consisting of packages 1, 2, and 3, while Adani secured Groups II, III, and IV, encompassing packages 4 to 12.
  - Effectively, Adani Road Transport has given sub-contracts to HG Infra (for Group II), Patel Infra (for Group III), and ITD Cementation (for Group IV). Moreover, IRB Infra has given work to L&T to carry out some portion of the construction work.
  - HG Infra's project size amounts to ~Rs44.2bn (excluding GST). Although Adani Road Transport has a timeline of 36 months according to UPEIDA, HG Infra has been granted 27 months to complete the EPC works. Nevertheless, it aims to accomplish this task within the stipulated time period.
  - Following the receipt of the appointed date, considerable momentum has been achieved in the execution through a) comprehensive pre-planning of raw material procurement, b) prompt establishment of initial site facilities and mobilization, and c) judicious selection of raw material vendors and manpower suppliers.
  - Adani Road Transport has also established a dedicated team of officials at the site to closely monitor the progress. This team plays a crucial role in obtaining the required permissions for designs, resolving any issues related to approvals, bill clearances (if applicable), and more. Regular reviews are conducted by the Adani officials every fortnight.
  - As of 30th Jun'24, HG Infra achieved 67.5% physical completion, resulting in a revenue booking of ~Rs29.3bn till date (including ~Rs17.9bn during FY24). The management is now focused on increasing the pace of execution moving forward. However, their initial FY24 revenue projection estimated at ~Rs20.0bn from this project fell short, as execution were impacted in Q2 FY24 due to heavy and prolonged monsoon season (revenue amounted to Rs2.6bn in Q2 FY24, while Q3 FY24, Q4 FY24 and Q1 FY25 showed improvement with Rs5.5bn, Rs5.1bn and Rs6.0bn respectively).
  - There are no major concerns related to receivables from Adani group. As a general practice, ~50% of the total amount is paid within 15 days after bill submission, while the remaining amount is gradually settled over the following 15-30 days.
  - The company is eligible for early-completion bonuses amounting to Rs100mn, Rs250mn, and Rs500mn for accomplishing milestones 30, 60, and 90 days prior to the scheduled 27-month completion period, respectively.

Fig 31: Key details of Ganga Expressway (Group-II) project

Particular	Details
Authority	UPEIDA
Client	Adani Road Transport
Sub-contracted to	HG Infra (Group-II)
Lane and Length	6 lane, 151.7 km
Bid Project Cost (Rs bn)	49.7
EPC (Rs bn)	~44.2
Appointed date	3rd Nov'22
Scheduled COD	30th Jan'25
Physical Progress (till 30th Jun''24)	67.5%
Outstanding order book value (Rs bn)	14.9

Source: Company, SMIFS Research

- **Khammam Devarapalle (Package - 1 and 2).** HG Infra stood L1 for both the packages of Khammam Devarapalle project situated in Telangana during Mar'21. However, receipt of the appointed dates was delayed due to some difficulties with land acquisition at the beginning. Effectively, Package-1 and 2 got appointed during Oct'22 and Sept'22 respectively.
  - The total project cost for both packages of these HAM projects together amounted to Rs14.1bn, representing a premium of 19.4% over NHAI's projected cost. The estimated value for the EPC component is Rs 11.1 bn.
  - As of 30th Jun'24, Package-1 is making steady progress, currently at 59.7% execution progress, with an outstanding value of Rs2.8bn. Package-2 has also made significant strides with a physical progress of 56.0%. With this, the outstanding order book value for package-2 stands at Rs2.7bn.
  - It is highly likely that the execution will stay resilient in the future, as the project has access to the majority of the land. With this, the company is likely to get completed by FY25-end.

Fig 32: Package -1 site photos show box culvert and toll plaza*

Source: NHAI, SMIFS Research; *as of May'24

Fig 33: Package-2 site photos exhibit heaps of raw material*

Source: NHAI, SMIFS Research; * as of May'24

Fig 34: Key details of Khammam-Devarapalle project

Project Details	State	Length (km)	L1 Date	Appointed date	Bid Project Cost (Rs bn)	EPC value (Rs bn)	Outstanding EPC Value (Rs bn)
Package-1	Telangana	33.6	Mar-21	Oct-22	7.7	6.1	2.8
Package-2	Telangana	29.5	Mar-21	Sept-22	6.4	5.0	2.7

Source: Company, SMIFS Research

- **Raipur Visakhapatnam HAM project.** Three packages are being carried out by the company, with one based in Andhra Pradesh and the other two in Odisha. The combined bid project cost for all three packages stood at Rs36.8bn, representing a 16.4% premium compared to the NHAI's estimated cost. The execution in the packages is currently underway and has surpassed the 70% completion mark.
  - **Raipur Visakhapatnam AP-1**: This package situated in Andhra Pradesh was secured in Mar'21 and it took approximately one year to obtain the Appointed date (in Mar'22). The company secured this project on a premium of 23.4%, with a bid project cost of Rs10.6bn. The estimated EPC cost for the project is Rs8.1bn. As of 30th Jun'24, the company has made substantial progress, with the physical completion reaching 74.4%. The outstanding order backlog currently amounts to Rs2.2bn. The management expects the execution in this package to get completed by FY25-end.

Fig 35: AP-1 site image showcasing mining with loader

Source: NHAI, SMIFS Research; * as of May'24

Fig 36: Various course of an under-construction road at AP-1 site*

Source: NHAI, SMIFS Research; * as of May'24

- **Raipur Visakhapatnam OD-5 and 6**: These packages, situated in Odisha, were awarded by NHAI during Oct'21 while work has commenced in Jun'22 upon receiving the Appointed date.
  - The OD-5 package was secured at 11.4% premium over NHAI's estimated cost, valued at 14.9bn. As of Jun'24-end, the project has reached 71.9% physical completion, with an outstanding project value at ~Rs3.8bn. Management anticipates project completion by FY25-end.
  - The OD-6 package, which was secured at a bid project cost of Rs11.2bn, was obtained at 17.1% premium. The project has achieved completion of 79.4% at Jun'24-end and still holds a value of Rs2.1bn. The management anticipates that the execution will get completed by Q3 FY25.

Fig 37: Surface course being laid with a pavement machine*

Source: NHAI, SMIFS Research; * at OD-5 site as of May'24

Fig 38: Showcases a minor bridge and equipment at OD-6 site*

Source: NHAI, SMIFS Research'; * as of May'24

- **Varanasi-Ranchi-Kolkata Highway**. During Mar'23, the company successfully secured L1 status for two packages, namely Package-10 and 13. The project was obtained by submitting a bid project cost of Rs22.3bn and an EPC value of ~Rs19.0bn, which represented a premium of 26.4% over the NHAI's estimated cost.
  - Financial closure for Package-10 and Package-13 was successfully attained in Nov'23. However, both packages have encountered challenges related to land acquisition and forest clearance, which have postponed the receipt of the appointed date.
  - Now, the company is targeting Sept'24 for the appointed date of Package-13. In contrast, Package-10 continues to face difficulties concerning land availability and outstanding forest clearance (for specific areas). Consequently, the company intends to secure the appointed date for Package-10 in Jan'25.

- **Delhi Metro-rail Project**. This marks the first project of the company into the non-road segments in the recent times, which was successfully obtained in Dec'22 from Delhi Metro Rail Corporation Limited (DMRC) with an EPC value of Rs4.1bn.
    - As an EPC project with ample availability of land, the company managed to secure the appointed date within a month (in Jan'23).
    - The metro-rail project has reached a milestone of 55.8% completion as of Jun'24, with the execution advancing smoothly and aligning with the projected timelines
    - Having construction timeline of 2 years, the management is looking forward to the project being completed promptly. Moreover, the expected margin in the project stands at ~14%, consistent with the margin benchmarks for road EPC contracts.

- **Nagpur-Chandrapur Access controlled Expressway:** The company has achieved the L1 status for two packages of the Nagpur-Chandrapur access-controlled expressway located in the state of Maharashtra, to be executed under the EPC framework. The Maharashtra State Road Development Corporation (MSRDC) has awarded this project during May'24**.**
    - Both packages, NC-04 and NC-05, are consecutive and collectively valued at Rs41.4bn, having been awarded at a premium of 29% over the authority's projected cost.
    - The company has emphasized that negotiations for both the packages with the MSRDC have been successfully concluded, indicating a minimal risk of project cancellation. Furthermore, it is anticipated that the authority will issue the Letter of Acceptance by Sept'24, with probability of ~70% land availability. However, the management anticipates that the actual work on ground to begin by Dec'24, following the State election.

- **Neelmangala-Tumkur Road EPC project**. The company was designated as L1 in Jan'22 and subsequently received a Letter of Award for the road project (valued at Rs 8.4bn and located in Karnataka) in May'22. This delay was attributed to the unavailability of the desired Right of Way (RoW). Additionally, it took an extra three months, until Aug'22, to obtain the necessary approval from the authorities to commence construction on the project.
    - Although nearly two years have passed, the progress of this EPC project has been slow, with ~23.9% of the work completed thus far.
    - The management has reported that the slow pace of progress is linked to difficulties concerning the availability of land. Further, the company has communicated that it is actively engaging with the National Highways Authority of India (NHAI) to find a resolution to this issue.
    - Should these discussions prove unsuccessful, the company may contemplate the pre-closure of the project. The outstanding balance of as of 30th Jun'24, stands at ~Rs6.8bn.

- **Solar project in Rajasthan.** The month of Mar'24 (along with the subsequent acquisition of projects from M/S Ultra Vibrant Solar Energy through a MoU established in July'24), has marked a significant turning point for the company. During this period, they have made substantial advancements by successfully securing ~700 MW of solar power plant projects in Rajasthan.
    - The projects secured in Mar'24 was part of the PM-KUSUM initiative. The responsibilities of the joint venture (in collaboration with Stockwell Solar Services Pvt Ltd mainly for technical qualifications) encompasses the entire process of designing, supplying, installing, and commissioning the project. Additionally, the joint venture is responsible for the O&M period, which spans 25 years.

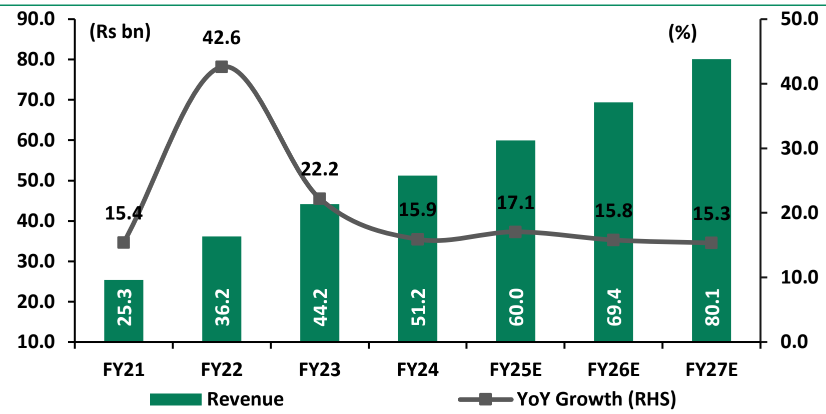
- The project is to be taken up through SPVs and involves ~Rs23.4bn overall expenditure (incl. GST). Thus, implies ~Rs43.0mn cost per MW. The SPVs are also entitled for government assistance of Rs2.7mn per MW.
- The EPC potential of the project is envisaged at ~Rs20.0bn (excl. GST) which was extended to two partners. The company is likely to take care of 65% of the total cost (~Rs13.0bn) while the balance will be executed by the JV partner.
- The management has mentioned that the project cost is a combination of 85% bought-out components (such as solar module, poles, wires, invertors among others) while the balance would be the civil portion.
- As solar module prices were volatile in the past, the company has locked-in the solar module prices from a reputed vendor, lower than the quoted prices in BOQ. Further it does not see inflation being a huge challenge for the balance bought-out components.
- The estimated equity component amounts to ~Rs5.4bn, which is likely to be injected evenly over FY25 and FY26. With the approved average tariff of ~Rs3.27 per unit, the management anticipates an average equity internal rate of return (IRR) ranging from 14.5-15.0% for the project.
- Upon the receipt of the clearances in May'24, the execution has already commenced. The management predicts that the projects to get completed at a span of 18 months, potentially concluding by Dec'25. Subsequently, these projects may start generating revenue based on the predetermined tariff structure.
- Further, the company has signed a Memorandum of Understanding with M/S Ultra Vibrant Solar Energy to undertake project development activities for 83MW (AC) and 116.2MW (DC). The estimated EPC value for the development of these projects is ~Rs4.1bn (excl. taxes).
- With this, the total solar power capacity that it looks to put in place rises to ~700MW. Also, the equity commitment for the entire portfolio is estimated at ~Rs6.9bn, largely to be infused over FY25 and FY26.
- Total EPC potential from the solar projects (HG’s share) is pegged at ~Rs17.1bn, and management envisages an ~18% EPC margin; the IRR on equity to be infused is in addition to this.
- Confident in the risk-return profile, management is receptive to exploring further opportunities. They are prepared to venture solo once they have obtained the required technical qualifications from the successful execution of current projects. The company has also appointed a full-time employee as President for the Renewables segment.

Although we believe that such projects support segmental diversification, the equity requirements are significant, possibly causing an unnecessary burden on the balance sheet and is likely to hamper its potential to bag newer projects, especially in mainstream roads sector. In such situation, the monetization becomes crucial.

Revenue surpassed Rs50.0bn in FY24; 16.1% CAGR likely over FY24-27E

- HG Infra has experienced healthy 24.2% revenue CAGR during FY18-24, mainly driven by its strengthened order book position and enhanced project execution capabilities. Despite facing difficulties in specific periods, notably in FY20 and FY21 due to the disruptions caused by the Covid-19 pandemic, it has effectively navigated through these challenges and saw a rebound in both FY22 and FY23.
- During FY24, the company has sustained its execution momentum and reported 15.9% YoY topline growth (to Rs51.2bn), on the higher base. The growth was largely driven by the Ganga expressway (contributing Rs17.9bn), followed by Raipur-Visakhapatnam (Rs9.7bn), Karala-Kanjhawala UER-1 (Rs5.2bn), Khammam Devarapalle (Rs4.3bn) and non-road projects (Rs4.1bn).
- Further, the company has reported healthy 18.4% YoY increase in revenue for Q1 FY25 (to Rs15.1bn) backed by enhanced performance on key projects. Ahead, the company is targeting ~17-18% YoY growth for FY25, which equates to a revenue forecast of Rs59.9 - Rs60.5bn. Moreover, it is anticipated that the revenue run-rate to continue into FY26, based on the current order book position.
- In alignment with the management's forecasts, we also believe that the company is strategically positioned to achieve ~Rs60.0bn in revenue for FY25, indicating a 17.1% YoY growth. The performance is likely to be driven by the expected pick-up in execution on its healthy order backlog. Moreover, sustained 15.8% YoY growth is anticipated for FY26, as projects obtained in non-road sectors and new projects in the roads division becomes executable. Further growth is expected to carry on into FY27, bolstered by the winning of newer projects and an expanding order backlog. Consequently, revenue is projected to rise at 16.1% CAGR over FY24-27E, ultimately reaching an estimated revenue of ~Rs80.1bn in FY27E.

Fig 39: Healthy topline growth likely over next couple of years



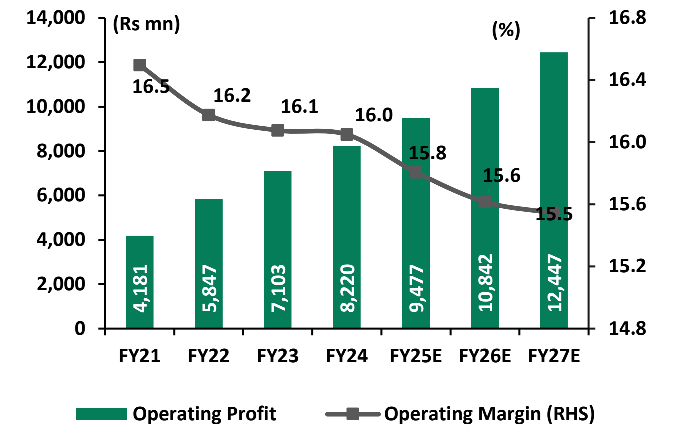
Source: Company, SMIFS Research Estimates

Margin to moderate to ~15.5% by FY27E; change in project mix is a cause

- Consistent improvement in operating margin has been witnessed from 11.8% in FY17 to 16.5% in FY21 while it sustained at an elevated level of 16.0%+ thereafter. This is largely led by a) better project mix (HAM projects contribution has increased from nil in FY17 to ~40% at FY24-end), b) prudent bidding discipline, c) improved operating efficiencies, and d) an increase in in-house equipment usage.
- The cluster-based approach in securing the projects (can be illustrated by first four HAM projects in Haryana, two packages of Khammam-Devarapalle, three packages of Raipur-Visakhapatnam, two packages in Varanasi-Ranchi-Kolkata Highway and two packages in Nagpur-Chandrapur expressway) and strong bidding discipline (secured HAM projects at ~13.9% premium to NHAI's estimated cost) has also aided company in better margin performance.
- Going forward, we expect margin to moderate from current level (~16.0% in FY24; 16.2% in Q1 FY25) to 15.5% by FY27E with higher contribution from comparatively lower margin EPC (roads and non-roads) projects.

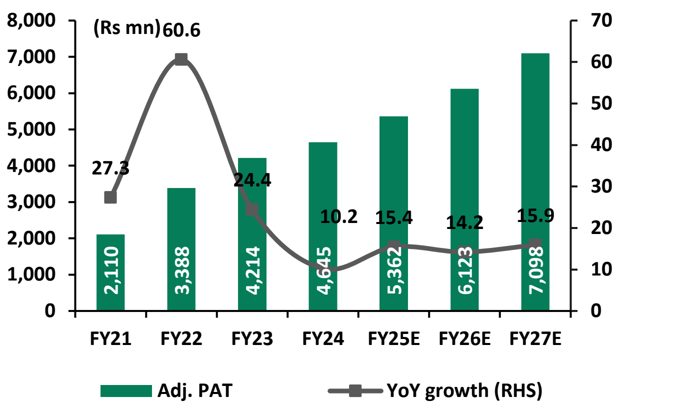
- At net level, strong revenue growth and healthy operating margin have resulted in a robust 32.9% adj. PAT CAGR over FY18-24. Ahead, we anticipate a 15.2% CAGR in adj. PAT over FY24-27E (reaching ~Rs7.1bn in bottom line during FY27) supported by stronger topline performance.

Fig 40: Margin to remain healthy; though on declining trend



Source: Company, SMIFS Research Estimates

Fig 41: PAT to improve at 15.3% CAGR over FY24-27E



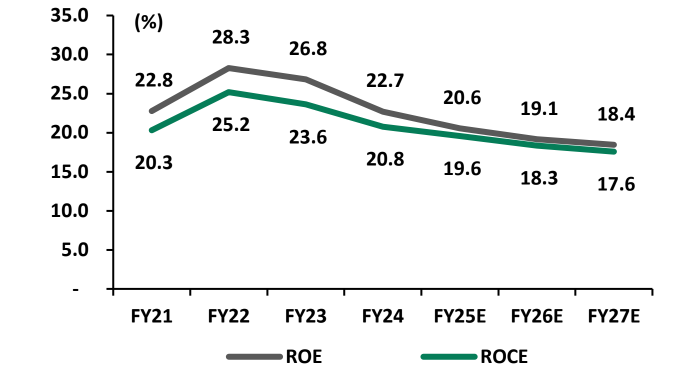
Source: Company, SMIFS Research Estimate

An efficiently managed balance sheet and a healthy working capital cycle foster confidence

- HG Infra has focused on maintaining a streamlined balance sheet structure through an asset-light business model and by effectively managing the working capital cycle. Despite this, the company's gross debt (inc. lease liability) on an absolute level has increased from Rs2.9bn at FY21-end to Rs6.7bn at Q1 FY24-end attributed to heightened capex and working capital demands.
- Subsequently, the gross and net debt by FY24-end has moderated to ~Rs4.6bn and Rs2.6bn, respectively as the proceeds from monetized assets were directed towards debt repayment. Consequently, the net D/E ratio remains at a manageable level of 0.1x.
- However, a general trend of sluggish client disbursements in the first half of the year, coupled with the management's decision to refrain from utilizing high-cost mobilization advances in certain projects, resulted in an increase in standalone gross and net debt to ~Rs6.2bn and Rs5.0bn, respectively.
- Looking ahead, the company faces an equity requirement of Rs14.6bn, primarily associated with ten ongoing HAM projects over the next 2-3 years. So far, Rs7.3bn has been invested, with projections of Rs4.3bn for the remainder of FY25, Rs1.3bn for FY26, and Rs1.7bn for FY27. In addition, the equity requirement for solar projects is estimated at Rs6.9bn (with Rs130mn already invested; Rs3.5bn earmarked for remainder of FY25 and Rs3.4bn in FY26). Further, the equity requirement for newly secured two MoRTH projects is estimated at Rs2.0bn. In summary, the company's total equity requirement in existing projects is pegged at ~Rs23.5bn, out of which it has already invested ~Rs7.3bn while balance is to be infused over next 3 years. Additionally, an estimated ~Rs4.5bn is anticipated to be spent on asset creation during FY24-FY27E.
- Despite this, we expect its gross debt to increase merely by ~Rs1.5bn over Q1 FY25-FY27E (borrowings to reach ~Rs7.7bn by FY27-end). This is based on the company's ability to generate healthy operating cash flow generation arising from improved profitability, and utilization of pending funds from monetized assets towards retiring some portion of debt. However, bagging of asset-heavy projects incrementally may increase debt requirements.
- Further, a healthy mix of private and government projects, well-defined strategy for project selection, and efficient project management have helped HG Infra to maintain working capital days at comfortable levels. We expect it to remain <95 days (incl. unbilled revenue) over next three years.

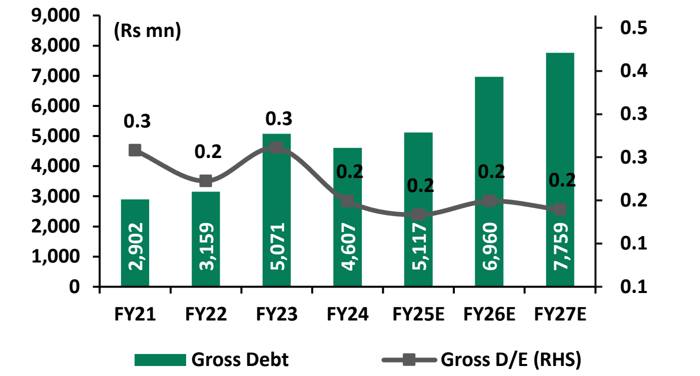
- Its return ratios to remain healthy ahead (FY27E - RoE: 18.4%, RoCE: 17.6%) to be backed by robust earnings growth, well-managed balance sheet position, comfortable working capital, and healthy fixed asset turnover.

Fig 42: Return ratios to remain healthy



Source: Company, SMIFS Research Estimates

Fig 43: Gross debt to increase gradually; D/E steady

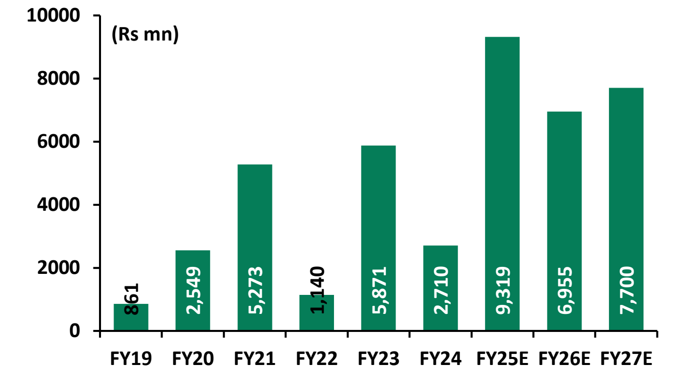


Source: Company, SMIFS Research Estimates

Strong operating cash flow augurs well

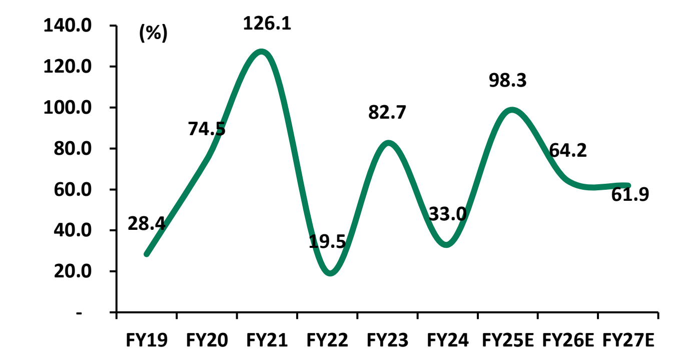
- The company's history is marked by strong operating cash flows. Over the course of the last decade, there was only one instance of negative operating cash flow, occurring in FY18. This was attributed to a rise in receivables caused by funds being held up in a project. However, the company was able to recoup the funds following the completion.
- During FY18-24, the company has reported a total EBITDA of Rs33.9bn. Furthermore, it has successfully generated Rs18.3bn in operating cash flow (OCF) during this period. These figures suggest that the company has been able to convert ~54% of its EBITDA into operating cash. Additionally, free cash flows were healthy at Rs6.2bn despite spending higher capex to the tune of ~Rs12.2bn during FY18-24.
- Ahead, it is likely that cash flows to remain robust with healthy working capital cycle, and normalization in contract assets (in days). We expect company to generate collectively ~Rs24.0bn of operating cash flow over FY24-27E. Even with the planned capex of ~Rs4.5bn over FY24-FY27E, free cash flow generation is projected to be strong at ~Rs19.6bn.

Fig 44: Strong operating cash flow generation across the years



Source: Company, SMIFS Research Estimates

Fig 45: CFO/EBITDA expected to be ~73% ahead

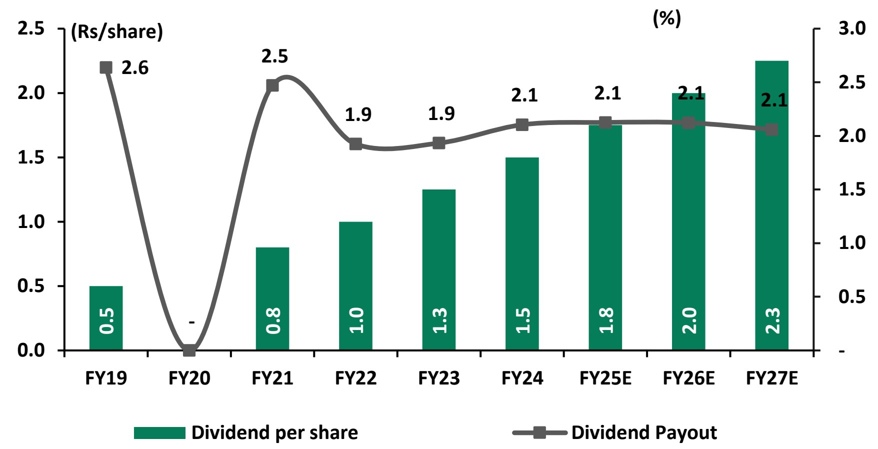


Source: Company, SMIFS Research Estimate

Consistent dividend payments instil a sense of reliability

- Since going public in 2018, the company has consistently distributed dividends, with the exception of FY20 when the board of directors opted not to recommend dividend in order to preserve resources amidst the business uncertainty caused by Covid-19.
- In fact, the dividends have steady increased from Rs0.5/share in FY19 to Rs1.5/share in FY24, with the exception of FY20. Improvements in dividends reflects positively on the company's management, reinforcing investor confidence. During FY24, the dividend payout was ~2.1% (improved from ~1.9% in FY23), while the average dividend yield was ~0.2%.
- It has not specified any well-defined distribution dividend policy. However, it is likely that dividends of Rs1.75/share, Rs2.0/share and Rs2.25/share may be declared in FY25, FY26 and FY27 respectively with improving profitability. These would result in a steady dividend payout of ~2.1%, aligns with the dividends announced in recent times.

Fig 46: Dividend payout is expected to be at ~2.1% over next couple of years



Source: Company, SMIFS Research Estimates

Four hybrid annuity projects monetized; received funds partly

- Road developers often secure HAM projects a) due to higher preference given by the NHAI for project awarding, b) aids in order book and revenue growth, and c) provides opportunities to bag projects on better margins due to limited participations and equity requirements. The optimal approach to HAM projects, however, is to unlock the invested capital through monetizing the assets post completion of the construction.
- HG Infra demonstrated its forward-thinking approach on 03rd May'23, by signing share-purchase agreements with the Highway Infrastructure Trust, an entity affiliated with KKR. This strategic move is intended to unlock the value of HG Infra's four HAM assets.
- With an enterprise value of ~Rs13.9bn, the deal showcased a favourable estimated equity valuation of ~Rs5.3bn (after adjusting for net debt of ~Rs8.6bn). This valuation surpasses the total equity invested, which amounted to ~Rs3.4bn (~1.5x invested equity). It is noteworthy that the company achieved one of the highest valuations for its asset in recent times.
- The completion of the transaction was anticipated to occur in two tranches due to ongoing construction in one project. As per NHAI's guidelines, a complete exit could be made after COD/PCOD plus six months. Tranche-1 was estimated to be completed upon receiving Rs4.0bn, while the remaining Rs1.3bn was expected to be paid in the second tranche.
- Following the receipt of necessary NOCs from lenders/authorities, the first tranche of the agreement was successfully completed on 21st Nov'23. The consideration for the equity transfer is valued at ~Rs3.7bn (incl. ~Rs0.5bn of sub-debt). The consideration for the first three assets has changed from the originally estimated ~Rs4.0bn; the revision is attributed to change in the CPI-linked price variation (a ~Rs0.1bn impact) and upstreaming of some cash flows from the SPV (~Rs0.2bn, extended as short-term support). Having said that, the company had invested 2.7bn as equity in these assets, consequently, an exceptional gain of ~Rs1bn arose in Q3 FY24. It is highlighted that the company has received Rs3.1bn while Rs0.6bn were held back due to GST-related issues.
- The fourth asset is now ready for transfer, and steps are being taken to secure exit approvals and meet all other requirements. NOCs from NHAI and lenders for the change in ownership were obtained in Mar'24, and the company is currently working on fulfilling the remaining necessary conditions. As a result, the company aims to transfer the complete equity holding in the fourth asset by Oct'24 and receive ~Rs1.3bn (compared to Rs0.8bn infusion). It is anticipated that a total of ~Rs1.9bn in monetization proceeds will be received in FY25 (including Rs0.6bn that were held back due to GST-related issues).
- Moreover, of the outstanding HAM projects, five assets are expected to reach completion within this year or by early next year. Consequently, the management has begun initial discussions with 2-3 potential buyers and intends to share the relevant information with them by Oct/Nov'24 to facilitate asset assessment. The goal is to monetize these assets once they become operational, thereby unlocking capital for future expansion.

Fig 47: HG Infra's asset sold to KKR at exceptional valuation in all-cash transaction

Company	Assets	Equity invested (in Rs bn)	Equity valued (in Rs bn)	Return	Buyer	Mode
HG Infra	4 HAM	3.4	5.3	1.5x	Highway Infrastructure Trust (affiliate of KKR)	Cash
PNC Infratech	11 HAM and 1 BOT toll asset	17.9	29.0	1.6x	Highway Infrastructure Trust (affiliate of KKR)	Cash
KNR Constructions	3 HAM	3.7	4.9	1.3x	Cube Highways & Infrastructure	Cash
Dilip Buildcon	14 operational projects, and 4 under construction projects & 6 HAM projects	15.2	16.0	1.1x	Shrem Group	Cash
Dilip Buildcon	3 HAM	3.0	4.3	1.4x	Cube Highways & Infrastructure	Cash
Dilip Buildcon	10 HAM	15.1	23.5	1.6x	Shrem Group	Rs6.1bn in Cash, Rs17.3bn in InVIT units

Source: Company, SMIFS Research

Corporate Governance

We firmly believe that implementing effective corporate governance practices is crucial for instilling trust in our esteemed shareholders. Therefore, we are delighted to present a comprehensive plan on corporate governance, covering essential elements such as the board of directors, compensation for key executives, and potential liabilities. This framework aims to offer our valued investors the necessary reassurance when engaging with H.G. Infra Engineering Ltd.

Promoters' Shareholding

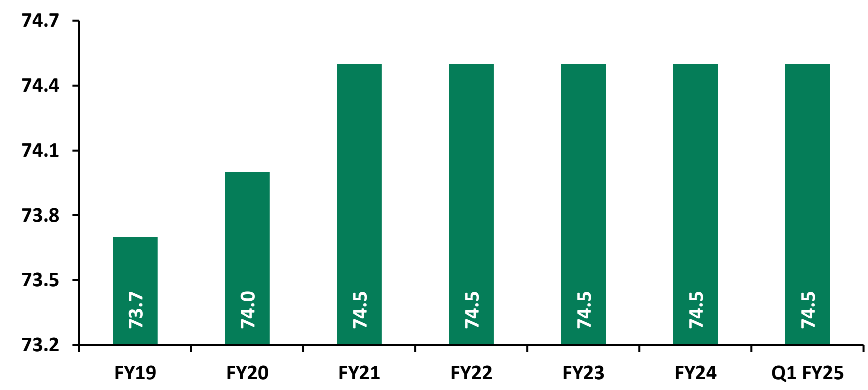
The promoters as of 30th Jun'24 owned the largest portion of the equity capital, making up ~74.53% of the total. Among the promoters, the Harendra Singh Family Trust had a slightly higher stake of ~24.85%, followed closely by the Vijendra Singh Family Trust and the Girishpal Singh Family Trust, both holding ~24.84%. Detailed information on the share distribution and its changes can be viewed in the accompanying table and chart.

Fig 48: Promoter Shareholding as on 30th Jun'24

Particulars	% Holding
Harendra Singh Family Trust	24.85
Vijendra Singh Family Trust	24.84
Girishpal Singh Family Trust	24.84
Total Promoter Shareholding	**74.53**

Source: BSE India, SMIFS Research

Fig 49: Promoter's Shareholding (%)



Source: BSE India, SMIFS Research.

The ownership of the company's promoter experienced a rise from ~73.7% at FY19-end to ~74.5% at FY21-end. During these period, Mr. Harendra Singh and his family's stake saw a slight increase from ~24.5% to ~24.9%. Similarly, Mr. Girishpal Singh and his family, as well as Mr. Vijendra Singh and his family, witnessed their stakes improve from ~21.1% to ~24.8% and from ~18.7% to ~24.8%, respectively. However, Hodal Singh's stake decreased from 9.5% to nil. Thereafter, the stake till Q1 FY25 has remained constant.

On 20th Aug'24, the promoters of the company completed the sale of ~1.8mn shares, representing 2.76% of the total equity, through an open market transaction (block deal). The Girishpal Singh Family Trust reduced its stake by 0.93%, the Harendra Singh Family Trust sold 0.92% of its stake, and the Vijendra Singh Family Trust divested 0.89% of its stake, all at an average price of Rs 1,566.5 per share. As a result, the ownership percentage held by the promoters has now decreased to 71.77%.

Fig 50: Promoter Shareholding post block deal

Particulars	% Holding
Harendra Singh Family Trust	23.92
Vijendra Singh Family Trust	23.95
Girishpal Singh Family Trust	23.90
Total Promoter Shareholding	**71.77**

Source: BSE India, SMIFS Research

Promoter Remuneration

Both Mr. Harendra Singh and Mr. Vijendra Singh serve as the promoters of the company. Although remuneration in absolute term has rose, their proportion to the PBT has consistently declined from 1.8% in FY19 to 0.8% in FY24. This compensation solely comprises of gross salary and does not include any performance-linked incentives.

Fig 51: Remuneration of promoters ***(Rs in mn)***

Promoters	FY19	FY20	FY21	FY22	FY23	FY24
Mr. Harendra Singh	21.6	21.6	22.1	26.0	30.0	39.0
Mr. Vijendra Singh	12.0	12.0	12.3	14.0	15.0	18.0
Total Remuneration	**33.6**	**33.6**	**34.3**	**40.0**	**45.0**	**57.0**
As % of PBT	***1.8%***	***1.5%***	***1.2%***	***0.9%***	***0.8%***	***0.8%***

Source: Company Annual Reports, SMIFS Research.

Independent Director's Compensation

In FY24, HG Infra had a total of five independent directors. Their combined compensation amounted to ~Rs 5.1mn and represents ~0.07% of the standalone PBT. The compensation solely consists of sitting fees. Here are the specific details:

Fig 52: Independent directors & their compensation ***(Rs in mn)***

Name	FY24 Compensation (Rs in mn)	As% to PBT (FY24)
Mr. Ashok Kumar Thakur	1.2	0.02
Ms. Pooja Hemant Goyal	0.6	0.01
Mr. Manjit Singh	1.3	0.02
Ms. Sharada Sunder	1.1	0.02
Mr. Monica Widhani	1.0	0.01
Total Remuneration	**5.2**	**0.07**

Source: Company Annual Report FY24, SMIFS Research

Board Composition

The board comprises of 8 members in FY24, comprising of a) 1 Chairman and Managing Director, b) 2 whole-time directors and c) 5 five independent directors. Additionally, 3 members in the independent directors are women. The details are provided below:

Fig 53: Board Composition

Particular	FY19	FY20	FY21	FY22	FY23	FY24
Total Strength	***6***	***6***	***6***	***6***	***8***	***8***
Executive Non-Independent Director (Managing Directors)	1	1	1	1	1	1
Executive Non-Independent Director (Whole Time Directors)	2	2	2	2	2	2
Non-Executive Independent Directors	3	3	3	3	5	5
Total Strength	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***
% Executive Non-Independent Director (Managing Directors)	*16.7%*	*16.7%*	*16.7%*	*16.7%*	*12.5%*	*12.5%*
% Executive Non-Independent Director (Whole Time Directors)	*33.3%*	*33.3%*	*33.3%*	*33.3%*	*25.0%*	*25.0%*
% Non-Executive Independent Directors	*50.0%*	*50.0%*	*50.0%*	*50.0%*	*62.5%*	*62.5%*

Source: Company Annual Reports, SMIFS Research

Contingent Liabilities

Companies engaged in road construction projects through the HAM model typically finance ~42-48% of the project cost through banks and NBFCs. Consequently, the company provides corporate guarantees in order to access these funding. HG Infra reported a contingent liability equivalent to ~17.5% of its net worth in FY24. The liabilities are primarily associated with corporate guarantees extended to bankers regarding the limits they have utilized. However, if we exclude guarantees and loan commitments, the contingent liabilities as a percentage of net worth were ~1%.

Fig 54: Contingent Liabilities *(Rs in mn)*

Particular	FY19	FY20	FY21	FY22	FY23	FY24
Contingent Liabilities						
Claims against the Company not acknowledged as debts	32.5	40.6	44.8	19.5	20.3	23.3
Direct tax demand disputed in appeals	-	-	-	13	20.2	102.4
Indirect tax demand disputed in appeals	-	-	-	-	-	100.7
Guarantees given	-	-	-	8,743	5,971	3,833
Total	**33**	**40**	**45**	**8,776**	**6,012**	**4,059**
Net worth	6,594	8,218	10,324	13,633	17,757	23,185
As a % of Net Worth	**0.5%**	**0.5%**	**0.4%**	**64.3%**	**33.9%**	**17.5%**

Source: Company Annual Report, SMIFS Research

Related Party Transactions

As per the analysis, nothing specific has come to our notice. The related party transactions were varying depending on contracts, guarantees and loans given to the related parties.

Fig 55: Related Party Transactions *(Rs in mn)*

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
Contract Revenue						
HGIEPL – Tata Projects JV (for Chittorgarh – Udaipur)	3,025	1,464	275	174	124	7
Gurgaon Sohna Highway Pvt Ltd	228	3,129	1,254	1,247	56	29
H.G. Ateli Narnaul Highway Pvt Ltd	-	954	4,261	3,249	255	71
H.G. Rewari Ateli Highway Pvt Ltd	-	779	2,356	1,865	287	31
H.G. Rewari Bypass Pvt Ltd	-	-	620	1,771	2,090	272
H.G. Raipur Visakhapatnam AP-1 Pvt Ltd	-	-	-	197	3,049	2,314
H.G. Khammam Devarapalle PKG-1 Pvt Ltd	-	-	-	-	433	2,922
H.G. Khammam Devarapalle PKG-2 Pvt Ltd	-	-	-	-	409	2,373
H.G. Raipur Visakhapatnam OD-5 Pvt Ltd	-	-	-	-	4,524	3,981
H.G. Raipur Visakhapatnam OD-6 Pvt Ltd	-	-	-	-	3,675	3,219
HGIEPL - MGCPL JV	-	-	-	-	3	1
H.G. Karnal-Ringroad Private Limited	-	-	-	-	-	2,109
Rasisar Solar Developer Private Limited	-	-	-	-	-	85
Total	**3,253**	**6,326**	**8,766**	**8,503**	**14,905**	**17,414**
Contract Expenses						
H.G. Infra Toll way Pvt Ltd	105	148	198	141	131	111
High grade Infra projects Pvt Ltd	49	-	-	-	-	-
Raghusons Infra Engineering Pvt Ltd	-	-	-	23	43	-
Mahadev Stone Crusher	0	20	45	45	13	2.4
H.G. Traders	-	1	4	8	1	1
Total	**154**	**170**	**247**	**217**	**187**	**114**
Guarantees given on behalf of Company						
Mr. Vijendra Singh	-	3,175	2,780	4,320	6,541	7,859
Mr. Harendra Singh	-	3,175	2,780	4,320	6,541	7,859
Mr. Girishpal Singh	-	-	-	4,320	6,541	7,859
Mr. Hodal Singh	-	-	-	4,320	6,541	7,859
Mrs. Nisha Singh	-	-	-	4,320	6,541	-
Hotel Marudhar (Partnership Firm)	-	-	-	4,320	6,541	7,859
H.G. Luxury Hotels Pvt Ltd	-	-	-	4,320	6,541	7,859
H.G. Acerage Developers Pvt Ltd	-	-	-	4,320	6,541	7,859
Valencia Leisure Pvt Ltd	-	-	-	4,320	6,541	7,859
Mr. Vaibhav Choudhary	-	-	-	-	-	30,000
Total	**-**	**6,350**	**5,560**	**38,878**	**58,865**	**92,872**
Guarantees issue on behalf of Subsidiary						

H.G. Raipur Visakhapatnam AP-1 Pvt Ltd	-	-	-	4,520	-	
HG Ateli Narnaul Highway Pvt Ltd	-	4,060	-	-	-	-4,059
HG Rewari Ateli Highway Pvt Ltd	-	2,270	-	-	-	
H.G. Rewari Bypass Pvt Ltd	-	-	2,200	-	-	
H.G. Khammam Devarapalle PKG-1 Pvt Ltd	-	-	-	-	232	
H.G. Raipur Visakhapatnam OD-5 Pvt Ltd	-	-	-	448	-	-200
H.G. Raipur Visakhapatnam OD-5 Pvt Ltd	-	-	-	-	-	-136
H.G. Karnal-Ring road Private Limited	-	-	-	-	-	299
H.G. Varanasi-Kolkata PKG-10 Highway Pvt Ltd	-	-	-	-	-	390
H.G. Varanasi-Kolkata PKG-13 Private Limited	-	-	-	-	-	277
Total	**-**	**6,330**	**2,200**	**4,968**	**232**	**-3,429**
Insurance premium paid towards keyman term policy taken by Company						
Mr. Vijendra Singh	5	5	3	6	6	6
Mr. Harendra Singh	5	5	3	5	5	5
Mr. Vaibhav Choudhary	5	5	3	5	5	5
Total	**16**	**16**	**8**	**16**	**16**	**16**
Loans given						
Gurgaon Sohna Highway Private Limited	34	75	137	234	140	40
H.G. Ateli Narnaul Highway Private Limited	0	41	45	33	219	46
H.G. Rewari Ateli Highway Private Limited	0	28	-	40	1	-
H.G. Rewari Bypass Private Limited	0	-	31	29	78	78
Total	**34**	**144**	**214**	**337**	**439**	**164**
Advance from customers received (Contract liability)						
Gurgaon Sohna Highway Pvt Ltd	-	515	140	105	7	-
HG Rewari Ateli Highway Pvt Ltd	-	488	-	-	-	-
H.G. Rewari Bypass Pvt Ltd	-	-	79	254	91	-
H.G. Raipur Visakhapatnam AP-1 Pvt Ltd	-	-	-	375	678	-
H.G. Khammam Devarapalle Pkg-1 Pvt Ltd	-	-	-	-	464	147
H.G. Khammam Devarapalle Pkg-2 Pvt Ltd	-	-	-	-	383	121
H.G. Raipur Visakhapatnam OD-5 Pvt Ltd	-	-	-	-	2,082	31
H.G. Raipur Visakhapatnam OD-6 Pvt Ltd	-	-	-	-	969	66
H.G. Karnal-Ring road Private Limited	-	-	-	-	-	1,197
Total	**-**	**1,003**	**219**	**735**	**4,673**	**1,562**
Loans repayment						
Gurgaon Sohna Highway Pvt Ltd	28	84	137	129	244	40
H.G. Ateli Narnaul Highway Pvt Ltd	-	0	42	-	295	47
H.G. Rewari Ateli Highway Pvt Ltd	-	0	28	-	42	0
H.G. Rewari Bypass Pvt Ltd	-	-	31	29	29	128
Total	**28**	**85**	**238**	**159**	**610**	**215**
Investment						
Gurgaon Sohna Highway Pvt Ltd	-	-	132	73	-	-
H.G. Ateli Narnaul Highway Pvt Ltd	-	-	951	-	-	-
H.G. Rewari Bypass Pvt Ltd	-	-	414	51	119	173
H.G. Raipur Visakhapatnam AP-1 Pvt Ltd	-	-	-	380	-	-
H.G. Khammam Devarapalle Pkg-1 Pvt Ltd	-	-	-	2	532	263
H.G. Khammam Devarapalle Pkg-2 Pvt Ltd	-	-	-	2	438	219
H.G. Raipur Visakhapatnam OD-5 Pvt Ltd	-	-	-	2	571	-
H.G. Raipur Visakhapatnam OD-6 Pvt Ltd	-	-	-	2	717	-
H.G. Karnal Ring Road Pvt Ltd	-	-	-	-	2	786
M/s Safety First (A Registered Partnership Firm)	-	-	-	-	4	-
Safety First Engineering Pvt. Ltd.	-	-	-	-	86	-
Total	**-**	**-**	**1,496**	**510**	**2,468**	**1,441**
Investments in instruments entirely equity in nature						
H.G. Rewari Ateli Highway Pvt Ltd	-	-	149	157	31	-337
H.G. Ateli Narnaul Highway Pvt Ltd	-	-	59	225	-	-283
H.G. Raipur Visakhapatnam AP-1 Pvt Ltd	-	-	-	8	471	139

H.G. Khammam Devarapalle Pkg-1 Pvt Ltd	-	-	-	2	43	53
H.G. Khammam Devarapalle Pkg-2 Pvt Ltd	-	-	-	2	38	45
H.G. Raipur Visakhapatnam OD-5 Pvt Ltd	-	-	-	28	744	255
H.G. Raipur Visakhapatnam OD-6 Pvt Ltd	-	-	-	1	107	187
H.G. Karnal-Ringroad Private Limited	-	-	-	-	-	73
H.G. Varanasi-Kolkata PKG-10 Highway Pvt Ltd	-	-	-	-	-	40
H.G. Varanasi-Kolkata PKG-13 Private Limited	-	-	-	-	-	27
Total	**-**	**-**	**208**	**423**	**1,435**	**199**
Sale of Property, Plant and Equipment						
H.G. Luxury Hotels Private Limited	-	-	-	-	-	2
Mrs. Nisha Singh	-	-	-	-	-	65
Total	**-**	**-**	**-**	**-**	**-**	**67**

Source: Company Annual Reports, SMIFS Research

Key Management Personnel

Fig 56: Details of Promoter and Director

Name	Designation	Profile
Mr. Harendra Singh	Chairman & Managing Director	Mr. Harendra Singh, boasting over 30 years of experience in the construction sector, has been an integral member of the Company's Board since its inception. Notably, he assumed the role of Managing Director on May 15, 2017. Mr. Harendra Singh is a graduate in Civil Engineering from Jodhpur University.
Mr. Vijendra Singh	Whole-time Director	Mr. Vijendra Singh has been a founding member of the Company's Board, accumulating 32 years of experience in the construction industry following his basic education. Notably, he was appointed as a Whole-time Director on May 15, 2017.
Mr. Dinesh Kumar Goyal	Whole-time Director	Mr. Dinesh Kumar Goyal, a retired IAS officer and former Additional Chief Secretary to the Government of Rajasthan, brings 40 years of diverse experience in finance, energy, and infrastructure. He provided advisory services post-retirement and joined the Company's Board on May 23, 2018, becoming a Whole-time Director from June 24, 2020. Holding a Ph.D. from BITS Pilani, he is also an Eisenhower Fellow.
Mr. Rajeev Mishra	Chief Financial Officer	Mr. Rajeev Mishra, a Chief Financial Professional, boasts 23 years of experience, with 12 years in the Banking/Finance sector, specializing in credit appraisal, wealth management, trade finance, and cash management services. He also holds 10 years of senior management experience in the infrastructure and real estate sectors, overseeing finance, compliance, administration, and company management.
Mr. Ashok Kumar Thakur	Independent Director	Mr. Ashok Kumar Thakur, with 39 years of banking expertise, became an Independent Director of the Company on May 15, 2017. He previously held key roles at Union Bank of India, including General Manager (HR) and General Manager of Kolkata Zone. Additionally, he served as Chairman at Rewa Siddhi Gramin Bank. Mr. Thakur holds a master's degree in commerce from Lucknow University.
Mr. Manjit Singh	Independent Director	Mr. Manjit Singh, a retired IAS officer and former Additional Chief Secretary for Rajasthan, brings over 31 years of top-level experience in various sectors. He joined the Company's Board as an Independent Director on May 13, 2022. Holding an MBBS from Government Medical College, Patiala, an Executive MBA from the International Institute of Enterprises, Ljubljana, and having completed an Urban Management Course from IIM Ahmedabad, his expertise adds significant value.
Ms. Monica Widhani	Independent Director	Ms. Monica Widhani is a Chartered Accountant with over 35 years of corporate experience in Strategic Business Management, Marketing, and Finance. She specializes in Marketing, Business Strategy, and Team Management. With various leadership roles at Bharat Petroleum Corporation Limited (BPCL), she joined the Company's Board as an independent director on February 08, 2023. Currently, she also serves as an Independent Director at Gujarat Pipavav Port Limited since August 2021 and ABB India Limited since May 2022.
Ms. Pooja Hemant Goyal	Independent Director	Ms. Pooja Hemant Goyal, an Independent Director, brings over 14 years of experience in the legal industry and as a legal practitioner. She joined the Company's Board on Ma.0y 15, 2017, after her tenure at the law firm N.V. Vechalekar & Co. in Mumbai. Ms. Goyal holds a bachelor's degree in commerce and a master's degree in law from Jiwaji University, Gwalior, Madhya Pradesh.
Ms. Sharada Sunder	Independent Director	Ms. Sharada Sunder is a seasoned Chartered Accountant with over 25 years of corporate experience in business management. Specializing in Business Strategy, Execution, Financial Management, and Team Building, she joined the Company's Board on February 08, 2023. Additionally, she serves as an Independent Director at Baroda BNP Paribas Trustee India Private Limited since March 2022 and consults for Pragati Leadership Institute Private Limited.

Source: Company Annual Report FY24, SMIFS Research

CSR Activities

HG Infra Engineering has been actively involved in CSR activities for the betterment of society. The company spent ~Rs 48mn in FY22, ~Rs 66mn in FY23, and ~Rs 89mn in FY24. The spending meets the prescribed limit for the mentioned years.

Fig 57: CSR Activity Spend *(Rs in mn)*

Years	Avg. Net Profit (last 3 Yrs.)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY24	4,460.3	89.2	123.1	138.0%
FY23	3,298.9	66.0	66.0	100.0%
FY22	2,411.5	48.1	48.1	100.0%

Source: Company Annual Report, SMIFS Research

Auditors

The shareholders of the Company have appointed M/s. Shridhar & Associates, Chartered Accountants as one of the Joint Statutory Auditors of the Company for the first term of 5 consecutive years at the AGM held on 25th Sept'20 and M/S. M S K A & Associates, Chartered Accountants, as Joint Statutory Auditors of the Company for the first term of 5 consecutive years at the AGM held on 03rd Aug'22. During FY24, there was no change in the statutory auditors of the Company. As per the joint statutory auditors, there was no qualification, reservation, adverse remark or disclaimer given in their Report for the FY24.

At present, MSKA & Associate is serving as a Statutory auditor of many listed companies which includes HDFC Bank., Adani Ports and Special Economic Zone, Advanced Enzyme Technologies. Bikaji Foods, Macrotech Developers Ltd while M/s. Shridhar & Associates provides auditing service to listed Smartlink Holdings Ltd.

The company has paid ~Rs11.01mn to the statutory auditors, representing ~0.2% of Standalone PBT for FY24.

Fig 58: Auditor fees (FY24)

Auditor Name	Type	Auditor Fees (Rs mn)	As a % of PBT
M/s Shridhar & Associates, Chartered Accountants M/s MSKA & Associates, Chartered Accountants	Statutory Auditors	11.01	0.2%

Source: Company Annual Report FY24, SMIFS Research

Company Background

- Incorporated in Jodhpur (Rajasthan) in 2003, HG Infra specializes in offering EPC services on a turnkey and HAM basis, with a strong focus on civil construction and related infrastructure projects. Their expertise is particularly evident in road projects, such as highways, bridges, and flyovers. The core focus of its business model lies in utilizing a significant in-house equipment fleet, technology, and a proficient and dedicated workforce that prioritizes quality, and reliability.
- Lately, the company has ventured into EPC services of various infrastructure-related areas like railways, station redevelopment, and solar power plants and bagged number of projects from clients such as RVNL, DMRC, NTPC among others.
- Covering states such as Rajasthan, Uttar Pradesh, Haryana, Uttarakhand, Maharashtra, Jharkhand, Odisha, and others, the company has executed projects or is currently executing projects in twelve different states in India.
- Currently, HG Infra is pre-qualified to bid independently for contract values of Rs25.0bn+. Furthermore, it has formed a distinguished network of clients, working in conjunction with governmental and private organizations. This roster encompasses renowned entities like the Ministry of Road Transport and Highways (MoRTH), the National Highways Authority of India (NHAI), Indian Railways, Military Engineering Services, Public Works Department (PWD), IRB, Adani, and Tata Projects.
- As of 30th Jun'24, the company had an order backlog of ~Rs156.4.bn. The government clients added ~91% of the total order book, while remaining 9% is contributed by the private clients. Further, HAM projects make up 28.2% of the overall order backlog, while EPC projects constitute the balance 71.8%.

Fig 59: Key Milestone of HG Infra Engineering Ltd

Year	Details
2003	Incorporation of the company post conversion of partnership firm "M/S Hodal Singh Giriraj Singh & Company"
2008	Executed first subcontract work of construction of embankment for an amount of Rs149mn.
2008	Commenced construction of a portion of the Yamuna Expressway, worth Rs1.2bn
2010	Commenced first major project as a sub-contractor to carry out work of four laning of 49km on the Jaipur – Tonk Deoli section on NH-12, worth ~Rs2.6bn
2011	Commenced work on four-laning of Warora - Bamni section in Maharashtra worth ~Rs2.7bn
2014	Executed construction of two separate sections of Jaipur Naguar Road amounting to ~Rs1.0bn
2015	Four-laning of NH-65, on Kaithal- Rajasthan border from IRB Infra amounting to Rs4.0bn
2017	Conversion of company into public limited company
2017	Awarded seven construction projects in Maharashtra worth Rs19bn by MoRTH
2017	Revenue crossed Rs10bn, and profitability reached Rs500mn
2018	Won first HAM Project in Haryana worth Rs6.1bn
2018	Pre-qualification for MoRTH and NHAI projects reached Rs11.0bn
2018	Raised Rs3bn from IPO in Feb'18; Listed on BSE and NSE
2019	Revenue reached Rs20bn+ with elevated operating margin of 15%+
2020	EPC pre-qualification for MoRTH and NHAI projects stood above Rs20.0bn
2022	Secured first non-road order in the segment of Metro worth Rs4.1bn
2022	Secured highest order value worth ~Rs44bn as sub-contract from Adani Road Transport
2023	Diversified presence into Metro-rail, Solar, Railways sector. Presence reached to 11+ states.
2024	Revenue surpassed Rs50.0bn with elevated operating margin of 16%

Source: Company, SMIFS Research

Valuation and Recommendations

A robust order backlog, expected inflows, and diversification across geographical and sectoral lines are likely to propel the company's topline growth. The firm's strong construction capabilities, bolstered by in-house design and execution teams, to also play a crucial role. However, margin is expected to decline from current levels, primarily due to a change in the project mix that favours lower-margin EPC jobs. Conversely, the company's low D/E ratio, satisfactory working capital days, and healthy return ratios reinforce its strong financial position.

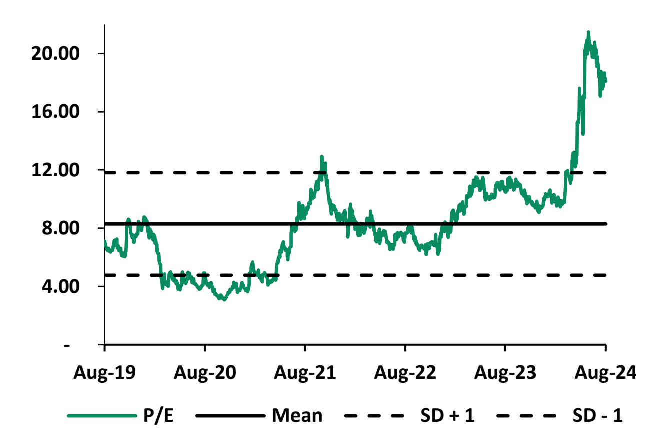
At CMP, the stock (excluding investments) is trading at a valuation of 16.3x FY25E P/E, 13.3x FY26E P/E and 11.0x FY27E P/E. We have adopted the Sum-of-the-Parts valuation methodology, assessing the core construction segment at 15x Sept'26E P/E. Additionally, hybrid annuity assets have been valued at 1x their Sept'26E book value, while solar assets are appraised at 70% of the expected equity investments. Consequently, core construction segment is valued at ~Rs1,522/share, with investments at ~Rs305/share. Thus, we initiate coverage on the stock with a target price of Rs1,827/share.

Fig 60: Valuation table

Particular	Earnings/share	Multiple	Price/share
Standalone business	101.4	15.0	1,521.5
HAM Investment	230.9*	1.0	230.9
Solar Investment	106.2*	0.7	74.3
Total			**1,827**

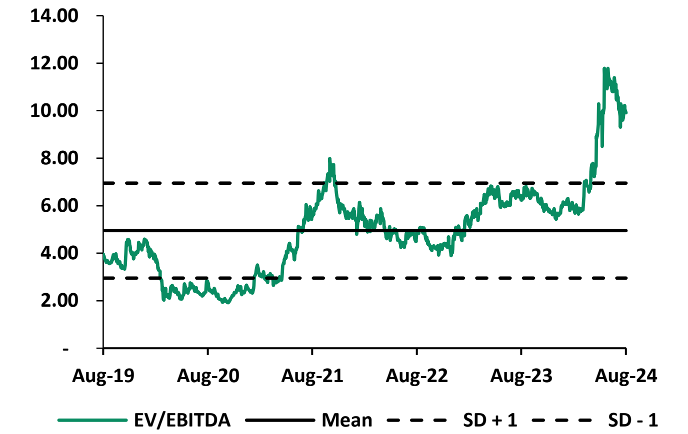
*Source: Company, SMIFS Research Estimates; * Investment/share*

Fig 61: 1-year forward P/E*



Source: Ace Equity, SMIFS Research; *Adjusted for investments

Fig 62: 1-year forward EV/EBITDA*



Source: Ace Equity, SMIFS Research; *Adjusted for investments

Peer Comparison

Company	Revenue	Operating Margin	PAT	ROE (%)	Net D/E (x)	P/E (x)*	EV/EBITDA* (x)
	CAGR FY24-27E (%)	FY27E (%)	CAGR FY24-27E	FY27E			
KNR Construction	6.7	16.8	1.5	11.8	(0.2)	16.2	9.2
PNC Infratech	7.3	12.8	(1.1)	12.0	(0.1)	11.1	7.2
GR Infraprojects	4.7	13.6	12.4	10.4	0.2	14.4	11.2
Ashoka Buildcon	9.1	9.6	4.9	11.9	0.2	9.9	6.2
HG Infra Engineering	**16.1**	**15.5**	**15.2**	**18.4**	**0.0**	**11.0**	**6.6**

Source: Company, Bloomberg, SMIFS Research Estimates; *Considered and adjusted for investments

Key Performance Indicators

Y/E March (Rs bn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Order book (at the start of the year)	62.2	71.0	70.4	79.7	127.7	124.3	165.0	206.3
YoY growth (%)	35.1	14.2	(0.9)	13.3	60.1	(2.6)	32.7	25.0
Order inflows	30.8	24.7	45.5	92.1	43.5	100.0	110.0	120.0
YoY growth (%)	(15.1)	(19.6)	84.0	102.5	(52.8)	129.9	10.0	9.1
Order book (at the end of the year)	71.0	70.4	79.7	127.7	124.3	165.0	206.3	247.1
YoY growth (%)	14.2	(0.9)	13.3	60.1	(2.6)	32.7	25.0	19.8

Source: Company, SMIFS Research Estimates

Key Risk and Concerns

- **Higher dependency on single authority poses risk to business.** Despite the company's expansion into other related infrastructure sectors, the primary source of revenue for HG Infra continues to be the roads and highways industry. Relying heavily on this particular segment may pose a risk to income streams if there is a significant decrease in projects awarded by NHAI.
- **Higher competitive intensity may affect inflows and margins.** Previous experiences have shown that the competitive intensity in both HAM and EPC road projects has been elevated for brief period, with the participation of as many as 15-25 players. Consequently, we believe that aggressive bidding by competitors and increased competition can lead to lower-than-expected inflows and a moderation in margins going forward.
- **Sectoral diversification can have negative implications to the financials.** In recent times, the company has managed to secure several projects in the railway, station redevelopment, and solar sectors. These endeavours mark a new phase for the company, as it establishes relationships with new clients. However, any delays or complications in the implementation of these projects could have an adverse impact on the company's profit margin and working capital management.
- **Volatility in raw material prices can impact margins:** Despite having price-escalation clauses in place for the company's NHAI projects, any unexpected spikes in the prices of essential raw materials like cement, bricks, sand, and steel might not be entirely passed on to the contract price. Moreover, as the company expands its project portfolio across different infrastructure sectors, not all contracts may have clauses for price escalation. This situation could consequently lead to adverse effects on the company's financial standing.
- **Manpower shortage poses a significant risk**: The timely accomplishment of construction projects necessitates a substantial workforce at the construction site. Numerous infrastructure companies have emphasized the scarcity of skilled labour, which can greatly impede the company's performance.

Quarterly financials, operating metrics, and key performance indicators

Fig 63: Quarterly financials

Y/E March (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net sales	**7,521**	**11,312**	**14,696**	**12,713**	**8,695**	**13,464**	**16,345**	**15,059**
Cost of Material Consumed	5,782	8,761	11,362	9,670	6,418	10,324	12,776	11,667
Employee Cost	412	543	628	715	648	776	743	787
Other Expenditure	119	115	329	280	245	222	180	172
EBITDA	**1,208**	**1,893**	**2,378**	**2,048**	**1,384**	**2,142**	**2,646**	**2,433**
Depreciation	241	260	261	311	354	367	380	348
Other Income	34	36	77	38	17	25	46	32
Interest	138	161	190	173	216	226	195	220
Exceptional Items	-	-	-	-	-	1,067	-	-
PBT	**862**	**1,508**	**2,005**	**1,602**	**831**	**2,642**	**2,117**	**1,897**
Tax	216	394	528	419	214	587	518	501
Tax rate (%)	25.1	26.1	26.3	26.1	25.8	22.2	24.5	26.4
Reported PAT	**646**	**1,114**	**1,477**	**1,184**	**617**	**2,055**	**1,600**	**1,395**
Adjusted PAT	**646**	**1,114**	**1,477**	**1,184**	**617**	**1,254**	**1,600**	**1,395**
YoY Growth (%)								
Revenue	*0.3*	*22.6*	*43.2*	*19.3*	*15.6*	*19.0*	*11.2*	*18.4*
EBITDA	*(0.9)*	*24.5*	*51.6*	*26.0*	*14.6*	*13.2*	*11.3*	*18.8*
Adj. PAT	*(7.5)*	*25.4*	*62.1*	*21.2*	*(4.6)*	*12.6*	*8.3*	*17.9*
QoQ Growth (%)								
Revenue	*(29.4)*	*50.4*	*29.9*	*(13.5)*	*(31.6)*	*54.9*	*21.4*	*(7.9)*
EBITDA	*(25.7)*	*56.8*	*25.6*	*(13.9)*	*(32.4)*	*54.8*	*23.5*	*(8.0)*
Adj. PAT	*(33.8)*	*72.4*	*32.5*	*(19.9)*	*(47.9)*	*103.4*	*27.5*	*(12.8)*
Margin (%)								
Gross Profit	*23.1*	*22.6*	*22.7*	*23.9*	*26.2*	*23.3*	*21.8*	*22.5*
EBITDA	*16.1*	*16.7*	*16.2*	*16.1*	*15.9*	*15.9*	*16.2*	*16.2*
Adj. PAT	*8.6*	*9.9*	*10.1*	*9.3*	*7.1*	*9.3*	*9.8*	*9.3*
Employee cost as % of sales	*5.5*	*4.8*	*4.3*	*5.6*	*7.5*	*5.8*	*4.5*	*5.2*
Other expenses as % of sales	*1.6*	*1.0*	*2.2*	*2.2*	*2.8*	*1.6*	*1.1*	*1.1*
Operational Matrix								
Order book (Rs mn)*	1,08,516	1,10,639	1,27,658	1,16,746	1,06,782	96,713	124,340	156,418
Inflows (Rs mn)*	-	12,614	30,212	425	-	362	42,757	45,504
Order book/TTM bill (x)	2.9	2.8	2.9	2.5	2.3	2.0	2.4	2.9

Source: Company, SMIFS Research; Note: *excludes L1 position if any.

Financial Statements (Standalone)

Income Statement

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**44,185**	**51,217**	**59,958**	**69,431**	**80,081**
Raw Materials	34,475	39,189	46,005	53,491	61,866
% of sales	*78.0*	*76.5*	76.7	77.0	77.3
Personnel	1,959	2,882	3,454	3,896	4,354
% of sales	*4.4*	*5.6*	5.8	5.6	5.4
Other Expenses	649	927	1,022	1,202	1,414
% of sales	*1.5*	*1.8*	1.7	1.7	1.8
EBITDA	**7,103**	**8,220**	**9,477**	**10,842**	**12,447**
Depreciation	963	1,412	1,544	1,692	1,871
Other Income	181	126	157	169	189
EBIT	**6,320**	**6,934**	**8,090**	**9,319**	**10,765**
Finance cost	633	810	922	1,133	1,277
Core PBT	**5,507**	**5,998**	**7,011**	**8,017**	**9,300**
Exceptional Items	-	1,067	708	-	-
PBT	**5,687**	**7,192**	**7,875**	**8,186**	**9,489**
Tax-Total	1,474	1,737	1,985	2,063	2,391
Tax Rate (%) - Total	*25.9*	*24.2*	25.2	25.2	25.2
Reported PAT	**4,214**	**5,455**	**5,891**	**6,123**	**7,098**
Adjusted PAT	**4,214**	**4,645**	**5,362**	**6,123**	**7,098**

Source: Company, SMIFS Research Estimates

Key Ratios

YE March	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratio (%)					
Revenue	22.2	15.9	17.1	15.8	15.3
EBITDA	21.5	15.7	15.3	14.4	14.8
Adjusted PAT	24.4	10.2	15.4	14.2	15.9
Margin Ratios (%)					
Gross Profit	22.0	23.5	23.3	23.0	22.7
EBITDA	16.1	16.0	15.8	15.6	15.5
EBIT	14.3	13.5	13.5	13.4	13.4
Core PBT	12.5	11.7	11.7	11.5	11.6
Adjusted PAT	9.5	9.1	8.9	8.8	8.9
Return Ratios (%)					
ROE	26.8	22.7	20.6	19.1	18.4
ROCE	23.6	20.8	19.6	18.3	17.6
Turnover Ratios (days)					
Gross block turnover	47.6	44.7	45.8	47.9	49.7
Adj OCF / Adj PAT (%)	124.5	40.9	156.6	95.1	90.5
0Inventory	19.4	21.1	23.0	24.0	26.0
Debtors*	72.6	65.4	68.5	69.4	71.4
Creditors	61.4	65.1	64.5	63.5	63.5
Cash conversion cycle*	30.6	21.5	27.0	29.9	33.9
Solvency Ratio (x)					
Debt-equity	0.3	0.2	0.2	0.2	0.2
Net debt/equity	0.1	(0.0)	0.0	0.1	0.0
Gross debt/EBITDA	0.7	0.6	0.5	0.6	-
Current Ratio	1.4	1.7	1.5	1.5	1.6
Interest coverage ratio	10.0	8.6	8.8	8.2	8.4
Dividend					
DPS	1.3	1.5	1.8	2.0	2.3
Dividend Yield (%)	0.2	0.2	0.1	0.1	0.1
Dividend Payout (%)	1.9	2.1	2.1	2.1	2.1
Per share Ratios (Rs)					
Basic EPS (reported)	64.7	83.7	90.4	94.0	108.9
Adj EPS	64.7	71.3	82.3	94.0	108.9
CEPS	79.4	105.4	114.1	119.9	137.6
BV	272.9	355.8	444.6	536.8	643.8
Valuation (x) #					
Adj P/E	10.8	12.7	19.0	16.6	14.3
P/BV	2.6	2.5	3.5	2.9	2.4
EV/EBITDA	6.6	7.1	10.8	9.6	8.3
EV/Sales	1.1	1.1	1.7	1.5	1.3
Adj Mcap / Core PBT	7.5	8.9	13.8	12.1	10.2
Adj Mcap / Adj OCF	7.9	28.1	11.5	16.7	14.8

Source: Company, SMIFS Research Estimates; *Excludes unbilled revenue, #non-adjusted for investments

Balance Sheet

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Source of funds					
Share Capital	652	652	652	652	652
Reserves & Surplus	17,133	22,533	28,326	34,335	41,303
Shareholders' Funds	**17,784**	**23,185**	**28,978**	**34,987**	**41,954**
Total Loan Funds	5,071	4,607	5,117	6,960	7,759
Other Liabilities	145	122	155	183	218
Total Liabilities	**23,000**	**27,914**	**34,250**	**42,131**	**49,931**
Application of funds					
Gross Block	10,336	12,312	13,562	15,062	16,762
Net Block	6,212	7,262	6,927	6,734	6,560
Capital WIP	719	42	27	32	36
Right use of assets	40	86	94	104	114
Intangible Asset	15	17	18	21	23
Investment Properties	79	58	58	58	58
Quasi Investments	2,330	2,556	2,605	2,658	2,718
Other Investments	**5,382**	**4,007**	**12,189**	**18,065**	**21,510**
Other Non - CA	**367**	**1,169**	**672**	**744**	**811**
Inventories	2,353	2,967	3,778	4,565	5,704
Sundry Debtors	8,791	9,177	11,252	13,201	15,665
Current Investments	10	857	-	-	-
Cash and Bank Balance	1,794	1,993	2,330	2,160	3,881
Other current assets	7,001	10,823	9,540	11,237	12,960
Total Current Assets	**19,949**	**25,816**	**26,901**	**31,163**	**38,211**
Sundry Creditors	7,437	9,133	10,595	12,079	13,932
Other current liabilities	4,656	3,965	4,645	5,368	6,178
Total Current Liabilities	**12,093**	**13,099**	**15,241**	**17,447**	**20,110**
Net Current Assets	**7,856**	**12,718**	**11,660**	**13,716**	**18,100**
Total Assets	**23,000**	**27,914**	**34,250**	**42,131**	**49,931**

Source: Company, SMIFS Research Estimates

Cash Flow

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating profit before WC changes	**7,377**	**8,578**	**10,185**	**10,842**	**12,447**
Net changes in working capital	64	(3,937)	1,119	(1,823)	(2,356)
Tax Paid	1,571	1,931	1,985	2,063	2,391
Cash flow from operating activities	**5,871**	**2,710**	**9,319**	**6,955**	**7,700**
Adj. OCF	**5,248**	**1,900w**	**8,397**	**5,822**	**6,423**
Capital expenditure	(3,392)	(2,239)	(1,205)	(1,516)	(1,715)
Adj FCF	1,856	(339)	7,193	4,307	4,709
Cash flow from investing activities	**(6,827)**	**(870)**	**(8,372)**	**(7,222)**	**(4,970)**
Debt	1,888	(40)	395	1,327	380
Dividend	(65)	(81)	(98)	(114)	(130)
Interest and Lease	(648)	(851)	(907)	(1,117)	(1,258)
Cash flow from financing activities	**1,174**	**(1,457)**	**(610)**	**97**	**(1,008)**
Net change in cash	**219**	**383**	**337**	**(171)**	**1,722**

Source: Company, SMIFS Research Estimates

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6. SMIFS has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months.
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Analyst holding in stock: **NO**

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