

12 December 2024

H.G. Infra Engineering – BUY

CMP : Rs.1,478.0

Target Price : Rs.1,850.0

Upside : 25%+

Stop Loss : Rs.1,290.0 (Closing basis)

Investment Thesis

- H.G. Infra Engineering Limited (HGIEL) offers significant growth potential supported by its strong presence in the infrastructure sector with the company's order book reaching Rs.16,624 crore, diversified across Roads & Highways (Rs.12,326 crore), Railways (Rs.2,387 crore), and Solar Projects (Rs.1,911 crore), showing revenue visibility and resilience against sectoral cyclicity.
- The anticipated project awards worth Rs.3 trillion by the Ministry of Road Transport and Highways (MoRTH) in H2 FY25, coupled with significant railway project approvals, present substantial growth opportunities for HGIEL. The company's strong execution track record and established relationships position it well to secure a significant portion of these investments. With this, the management is targeting an order inflow of Rs.11,000 to Rs.12,000 crore for FY25, of which Rs.5,500 crore has already been secured and management's guidance to sustain healthy EBITDA margins are of 15-16% and revenue growth is 17-18%.
- HGIEL is diversifying beyond traditional highway and railways construction by expanding into solar energy, aligning with national and state renewable energy goals such as Rajasthan's target of 65 GW solar capacity by 2030. The company's presence in the solar segment, supported by an 18% margin, indicates strong growth potential. Additionally, the company has recently secured orders worth Rs.1,110 crore for 185 MW/370 MWh battery storage systems, expected to be completed within 1.5 years, further strengthening its position in the renewable energy and storage sectors while driving long-term revenue growth.
- HGIEL has already bid for railway projects worth Rs.7,400 crore, aligning with the government's investment of Rs.24,657 crore under the Gati Shakti National Master Plan. This initiative will expand India's railway network by 900 kilometers, creating significant opportunities in electrification, multi-tracking, and the development of high-speed corridors. These projects are expected to position the company as a key player in the modernization and expansion of India's rail infrastructure.
- HGIEL has a significant order concentration in Maharashtra, which accounts for approximately 31% of its total order book. The re-election of the same government in Maharashtra is expected to benefit the company by facilitating faster order execution, as stable political leadership typically results in smoother regulatory approvals and timely project completions in the state.

Financials

- In Q2 FY25, HGIEL reported a revenue of Rs.902 crore, showcasing a well-diversified revenue stream. The HAM portfolio contributed a significant 67% of the revenue and the remaining 33% was derived from the EPC segment.

Consol. (Rs. Cr)	FY21	FY22	FY23	FY24	FY25E
Revenue	2,610	3,751	4,622	5,378	6,293
EBITDA	484	711	895	1,064	1,259
EBITDA Margin (%)	18.6%	19.0%	19.4%	19.8%	20.0%
PAT	237	380	493	539	635
EPS	36.3	58.3	75.6	82.6	97.4
PE	40.7x	25.3x	19.5x	17.8x	15.1x
RoE	25.1%	30.4%	29.4%	24.6%	25.8%

Stock Data

Market Cap (Rs. Mn)	96,360
Market Cap (\$ Mn)	1,135
Shares O/S (in Mn)	65.2
Avg. Volume (3 month)	1,22,910
52-Week Range (Rs.)	1,880 / 805

Shareholding Pattern

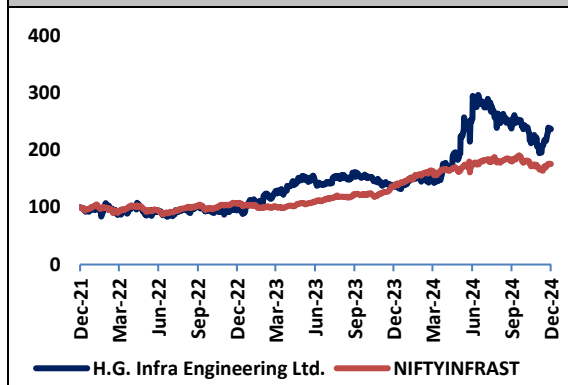
Promoters	71.77%
FII's	2.60%
Institutions	12.70%
Others (incl. body corporate)	12.92%

Key Ratios

Div Yield	0.10%
TTM PE	18.4x
ROE	24.1%
TTM EPS (Rs.)	82.2/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	14.5%	(7.3%)	72.0%
NIFTY INFRAST	12.3%	(8.4%)	44.0%



- HGIEL reported an EBITDA of Rs.219 crore in Q2 FY25, with margins improving by 120 basis points to 24.3%. This performance was primarily driven by the solar segment, which delivered higher margins compared to other business verticals.
- HGIEL remained profitable in Q2 FY25, with net profit reaching Rs.80 crore. However, this marked a 16% decline compared to the same quarter of the previous year, primarily due to flatish revenue growth, sectoral slowdown, and an increase in raw material costs. These factors impacted profits despite the company's strong operational efficiency.

Key Business Highlights

- HGIEL has established itself as a prominent player in the infrastructure development sector, with a diverse and expansive project portfolio spanning Roads & Highways, Railways & Metro, and Solar segments. The company has strategically positioned itself across 13 states in India, with a geographical footprint that covers 47% in the West, 20% in the East, 20% in the North, and 13% in the South, enabling it to capitalize on infrastructure development opportunities nationwide.
- In the first half of the year 2025, HGIEL secured several significant projects that further strengthen its market position. Notable acquisitions include the Nagpur-Chandrapur projects valued at Rs.1,991 crore and Rs.2,151 crore, the 84 Kosi Parikrama Marg Package 6, and the Narol Junction to Sarkhej Junction project. Additionally, the company expanded its railway project portfolio with multiple contracts in Maharashtra, Bihar, and Jharkhand, demonstrating its versatility and technical expertise.
- The company has been particularly active in expanding its Hybrid Annuity Model (HAM) projects, with investments across states like Haryana, Telangana, Andhra Pradesh, and Odisha. As of September 2024, the total invested equity in these projects reached Rs.790 crore, showcasing the company's commitment to this innovative infrastructure development model that balances public and private sector interests.
- HGIEL has been selected as a successful bidder by NTPC Vidyut Vyapar Nigam Ltd for a 185 MW (370 MWh) share in a 500 MW project. This project, with a tariff rate of Rs.2,38,000 per megawatt per month, is expected to generate annual revenue of Rs.52.83 crore and a total revenue of approximately Rs.633.96 crore over its 12-year tenure, reinforcing the company's strategic expansion into renewable energy and long-term revenue visibility.
- Looking ahead, HGIEL is focused on driving business growth through the timely execution of key infrastructure projects. The Karnal Ring Road project has achieved 46.1% progress, while the Raipur-Vishakhapatnam projects, OD-5 and OD-6, are nearing completion at 79.1% and 86.6%, respectively. Additionally, the Raipur-Vishakhapatnam AP-1 project is 81.3% complete, and the Khammam Devarapalle projects, KD-1 and KD-2, have reached 59.6% and 62.7% completion, respectively. The company targets completing all these projects in Odisha and Andhra Pradesh, along with the Khammam Devarapalle packages, by March 2025, with the remaining scope of OD-5 slated for completion by June 2025.

Valuation

HGIEL is currently trading at a PE of 18.4x compared to the industry average of 26.0x, indicating that the stock is undervalued but is poised for significant growth, supported by its Rs.16,624 crore diversified order book spanning roads and highways, railways, and solar projects. With anticipated project awards worth Rs.3 trillion by the Ministry of Road Transport and Highways (MoRTH) and Rs.24,657 crore allocated under the Gati Shakti National Master Plan for railways, the company is well-positioned to secure substantial contracts, leveraging its execution expertise and established relationships. HGIEL's strategic diversification into solar energy, aligned with national renewable goals, is further reinforced by its recent Rs.1,110 crore battery storage system order, indicating strong growth potential in the renewable energy sector. Management targets Rs.11,000–Rs.12,000 crore in order inflows for FY25, underpinned by its robust execution capabilities, 15-16% EBITDA margins, and revenue growth guidance of 17-18%, ensuring long-term revenue visibility and resilience.

Hence we assign a **BUY** rating on H.G. Infra Engineering Limited (HGIEL) and value at 19.0x FY25E EPS of Rs.97.4 to arrive a target price of Rs.1,850.0/- translating into a upside of 25%+.

Risk & Concern

- Being in the infrastructure space, the company is exposed to regulatory changes, delays in approvals, and compliance requirements that could impact projects.
- Although the company has a diversified presence across states, any adverse developments in key regions could impact operations and revenues.
- Dependency on large contracts, especially government-related Hybrid Annuity Model projects, involves significant upfront investment, which could strain cash flows if there are payment delays.

Graphs & Charts

Figure 1: Net Sales Trend

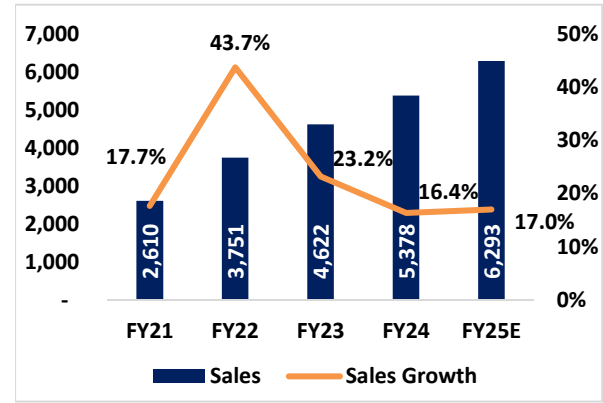


Figure 2: EBITDA & EBITDA Margin Trend

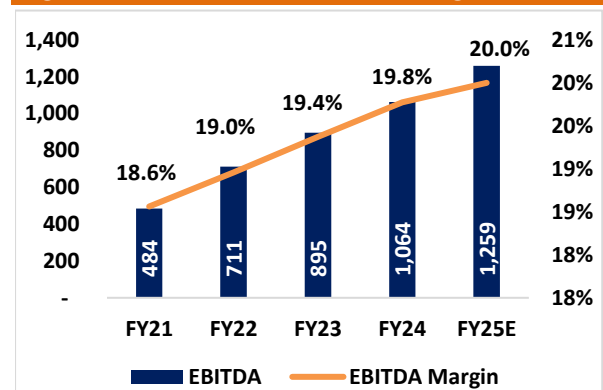


Figure 3: PAT & PAT Margin Trend

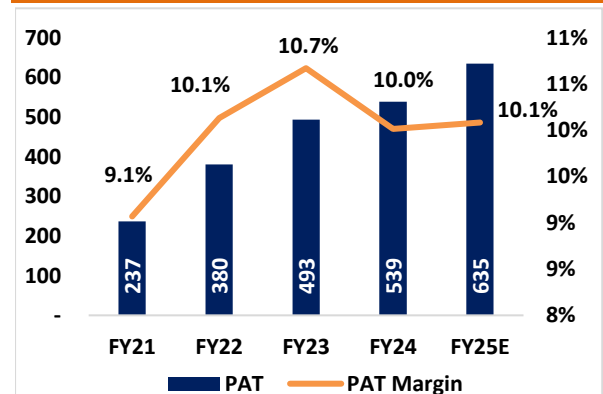
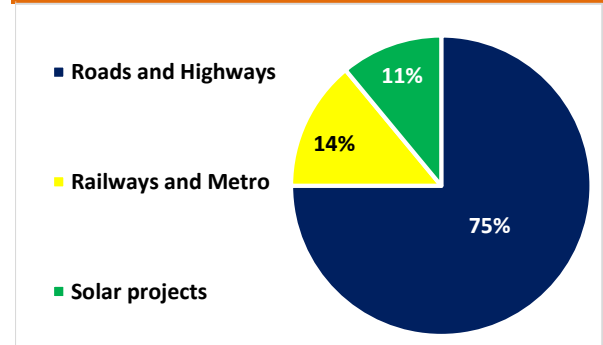


Figure 4: Order Book Weightage



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