

HG Infra Engineering

Started in 2003, HG Infra Engineering (HGIEL), based in Jodhpur, has evolved as a major player in the road construction sector and has a major foothold in Rajasthan, Uttar Pradesh and Maharashtra. HGIEL is pre-qualified to bid independently on an annual basis for bids by NHAI and MoRTH. During the last five years, it has completed 13 projects above the contract value of ₹ 40 cr in the roads and highways sector. Since 2013, the company also expanded its portfolio to sub-contracting of water supply projects.

Pros:

Strong order book: The company has a strong order book of ₹ 3708 cr, which grew significantly from ₹1,068 cr in FY2015. Government contributes 67.7% and private sector forms 32.2% of the order book. Road and highways form 95% of the order book.

Favorable industry trends: HGIEL is in a sweet spot, as investments in the road construction industry is expected to double to ₹10,70,000 cr over the next five years. Further, its pre-qualification to bid independently on an annual basis for bids by NHAI and MoRTH of contract value up to ₹900 cr would help in exploiting these opportunities.

Risks and concerns :

1) Delays in execution of projects, 2) Inability to win new orders, 3) Rise in raw material and labour cost, 4) >95% order book concentration in 2 states and 5) limited execution record

Outlook & Valuation: At the upper end of the price band, the P/E multiple works out to be 27x (pre issue equity base) and 33x (post issue equity base) its FY17 EPS. This post issue valuations is largely in line with industry average valuations and 10-30% discount from valuation of industry leaders like Dilip Buildcon and KNR construction. However, in view of the limited track record (the company has grown enormously only in the last 2-3 years) and concentrated order book (over 95% of order book concentrated in 2 states), we would like to see more consistent performance from the company in future. **Hence, we recommend 'Neutral' on the issue**

Key Financial

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
Net Sales	471	365	741	1,055
% chg	-	-22	103	42
Net Profit	11	5	35	53
% chg	-	-58	661	51
EBITDA (%)	10.8	12.0	10.5	11.4
EPS (Rs)*	2.0	0.9	6.5	9.9
P/E (x)	132.1	314.0	41.2	27.3
P/BV (x)	18.3	17.3	11.9	8.3
RoE (%)	13.8	5.5	28.8	30.3
RoCE (%)	26.5	19.5	28.5	28.4
EV/EBITDA	35.7	41.1	23.6	15.8
EV/Sales	3.9	4.9	2.5	1.8

Source: RHP, Angel Research; Note: *Ratios based on pre-issue outstanding shares and at upper end of the price band

Neutral

Issue Open: February 26, 2018
 Issue Close: February 28, 2018

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹54cr

Offer for Sale: 0.6cr shares

Fresh issue: *1.1cr shares

Post Eq. Paid up Capital: ₹65cr

Issue size (amount): ₹458-462 cr

Price Band: ₹263-270

Lot Size: 55 shares

Post-issue implied mkt. cap: ₹1720-1758 cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 74%

* Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post-Issue Shareholding Pattern

Promoters	74%
Others	26%

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Company background

The company was incorporated as “H.G. Infra Engineering Private Limited” on January 21, 2003. In 2008, it executed its first subcontract work of construction of embankment and commenced construction of a portion of the Yamuna Expressway. HGIEL is pre-qualified to bid independently on an annual basis for bids by NHAI and MoRTH. Since 2013, the company expanded its portfolio to subcontracting of water supply projects. Over the years, it has gradually added a fleet of modern construction equipment and employed manpower to supplement the growth of our construction business. As on November 30, 2017, its equipment base comprised of 1,064 construction equipment.

Company timeline

Year	Details
2003	Incorporation of Company
2008	Executed its first subcontract work of construction of embankment Commenced construction of a portion of the Yamuna Expressway
2010	Commenced its first major project as a subcontractor to carry out work of four laning in Jaipur Commenced work on a part of the road development project on the Ajmer bypass for ₹56 cr
2011	Commenced work on the project of four laning of the Warora Bamni section in Maharashtra
2014	Executed construction of the Jaipur - Nagaur road
2015	Awarded construction project of four laning highway of National Highway 65, on the Kaithal- Rajasthan border for a cost of ₹401 cr
2016	Executed second renewal coat on the pavement of six lane Jaipur – Kishangarh section of NH8
2017	Conversion of our Company into a public limited company Awarded seven construction projects in Maharashtra worth ₹1904 cr by MoRTH Awarded two construction projects by NHAI worth ₹ 414 cr

Source: Company, Angel Research

Issue Details

This IPO is a mix of OFS and issue of fresh shares. Issue would constitute fresh issue worth of ₹300cr and OFS worth of 0.6 cr. OFS is being offered by two of its promoters.

Exhibit 1: Pre and post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	5,40,60,000	100%	4,80,60,000	76%
Public			1,71,11,111	24%
Total	5,40,60,000	100%	6,51,71,111	100%

Source: RHP, Angel Research; Note: Calculated on upper price band* Pre IPO investors

Objects of the offer

- Repayment/pre-payment, in full or in part, of certain borrowings availed by the company (₹115cr)
- Purchasing capital equipment worth ₹90 crore
- General corporate purpose

Exhibit 2: Current order book details

Rs crore				
Client	No. of Contracts	Contract Value	Order Book	% of Total Order Book
1) Private clients	5	1758	1197	32
(2) Government clients	22	3403	2511	68
NHAI	5	1045	299	8
MoRTH	7	1905	1896	51
State PWDs	5	264	194	5
Total	27	5161	3708	100

Rs crore				
State	No. of Contracts	Contract Value	Order Book	% of Total Order Book
Rajasthan	16	2,498	1,653	44.6
Uttar Pradesh	1	127	44	1.2
Haryana	1	401	20	0.6
Uttarakhand	1	243	38	1.0
Maharashtra	7	1,905	1,896	51.1
Arunachal Pradesh	1	100	56	1.5
Total	27	5161	3708	100

Source: RHP, Angel Research

Key Management Personnel

Mr. Harendra Singh is the Chairman and Managing Director of the Company. He holds a bachelor's degree in engineering (civil) from Jodhpur University. He has been on the Board since the incorporation of the Company, and was reappointed for a period of five years with effect from May 15, 2017. He has 23 years of experience in the construction industry.

Mr. Vijendra Singh is a Whole-time Director of the Company. He has basic education. He has been on the Board since the incorporation of the Company, and was reappointed for a period of five years with effect from May 15, 2017. He has 23 years of experience in the construction industry. He is responsible for the overall functioning of our Company.

Mr. Girish Pal Singh is a Non-Executive Director of the Company. He has basic education. He has been on the Board since the incorporation of our Company. His designation was changed from an executive director to a Non-Executive Director pursuant to a resolution passed by its Board dated May 10, 2017. He has 23 years of experience in the construction industry.

Outlook & Valuation

At the upper end of the price band, the P/E multiple works out be 27x (pre issue equity base) and 33x (post issue equity base) its FY17 EPS. This post issue valuations is largely in line with industry average valuations and 10-30% discount from valuation of industry leaders like Dilip Buildcon and KNR construction. However, in view of the limited track record (the company has grown enormously only in the last 2-3 years) and concentrated order book (over 95% of order book concentrated in 2 states), we would like to see more consistent performance from the company in future. **Hence, we recommend 'Neutral' on the issue.**

Exhibit 3: Comparison with peers

	H.G. Infra	Dilip Buildcon	KNR Constructions	J Kumar Infraprojects	Sadbhav Engineering	Ashoka Buildcon	PNC Infratech
Revenue (₹cr)	1055	5,319	1,680	1,573	4,570	2,982	2,252
CMP (₹)	270	929	297	329	395	219	167
Face value(₹)	10	2	2	5	1	5	2
EPS (₹)	9.9	27.6	8.2	13.95	-3.15	-0.53	4.62
PE (x)	27.3	33.7	36.4	23.6	-	-	36.1
Return on net worth (%)	30.3%	20.8%	11.2%	7.6%	13.7%	-5.9%	8.1%

Source: RHP

Key risks

1. Delays in execution of projects
2. Inability to win new orders
3. Rise in raw material cost and labor cost
4. Increase in competitive intensity
5. Limited execution record

Consolidated Income Statement

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
Total operating income	471.0	365.1	740.9	1,054.9
% chg		-22.5	102.9	42.4
Total Expenditure	420.2	321.1	662.8	934.7
Raw Material	395.7	296.5	616.6	882.4
Personnel	21.3	20.7	30.0	41.7
Others Expenses	3.2	3.9	16.2	10.6
EBITDA	50.8	44.0	78.1	120.2
% chg		-13.5	77.7	53.8
(% of Net Sales)	10.8	12.0	10.5	11.4
Depreciation & Amortisation	13.4	17.1	18.3	25.6
EBIT	37.4	26.8	59.8	94.6
% chg		-28.4	123.0	58.2
(% of Net Sales)	7.9	7.3	8.1	9.0
Interest & other Charges	13.6	15.8	16.0	19.3
Other Income	1.9	2.5	2.4	3.7
(% of Sales)	0.4	0.7	0.3	0.3
Recurring PBT	25.8	13.5	46.2	79.0
% chg		-47.6	241.9	71.0
Tax	8.5	4.3	16.0	29.7
PAT (reported)	11.0	4.6	35.3	53.3
% chg		-57.9	661.4	50.9
(% of Net Sales)	2.3	1.3	4.8	5.1
Basic & Fully Diluted EPS (Rs)	2.0	0.9	6.5	9.9
% chg		-57.9	661.4	50.9

Source: RHP

Consolidated Balance Sheet

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
SOURCES OF FUNDS				
Equity Share Capital	15.3	15.3	18.0	18.0
Reserves & Surplus	64.5	69.2	104.5	157.9
Shareholders' Funds	79.8	84.4	122.6	175.9
Minority Interest	-	-	-	-
Total Loans	61.7	53.3	87.4	156.8
Other Liab & Prov	3.1	9.1	9.4	31.2
Total Liabilities	144.6	146.8	219.4	363.8
APPLICATION OF FUNDS				
Net Block	85.8	83.6	121.0	205.1
Capital Work-in-Progress	-	-	-	-
Investments	-	-	-	-
Current Assets	114.4	128.9	250.0	339.1
Inventories	20.5	21.8	43.5	49.2
Sundry Debtors	29.0	42.1	92.7	112.8
Cash	3.0	4.7	4.4	17.0
Loans & Advances	30.6	29.3	68.4	99.2
Other Assets	31.3	31.0	41.0	60.9
Current liabilities	77.6	92.0	178.9	207.4
Net Current Assets	36.9	36.9	71.2	131.7
Other Non Current Asset	21.9	26.2	26.4	24.2
Total Assets	144.6	146.7	218.6	360.9

Source: RHP

Consolidated Cash Flow Statement

Y/E March (₹cr)	FY14	FY15	FY16	FY17
Profit before tax	17.0	9.1	51.3	83.3
Depreciation	13.4	17.1	18.3	25.6
Change in Working Capital	5.3	0.1	(39.1)	(38.8)
Interest / Dividend (Net)	(1.7)	(1.8)	(2.0)	(2.4)
Direct taxes paid	(9.0)	(7.0)	(15.2)	(24.5)
Others	(13.4)	(16.1)	(16.2)	(21.2)
Cash Flow from Operations	38.4	33.7	29.5	64.4
(Inc.)/ Dec. in Fixed Assets	(3.1)	(20.9)	(62.6)	(115.1)
(Inc.)/ Dec. in Investments	-	-	-	-
Cash Flow from Investing	(3.4)	(17.0)	(66.2)	(113.7)
Issue of Equity	-	-	2.8	-
Inc./(Dec.) in loans	(20.0)	0.9	49.6	80.9
Others	13.7	15.8	16.0	18.9
Cash Flow from Financing	(33.7)	(14.9)	36.3	62.0
Inc./(Dec.) in Cash	1.3	1.7	(0.4)	12.7
Opening Cash balances	1.7	3.0	4.7	4.4
Closing Cash balances	3.0	4.7	4.4	17.0

Source: RHP

Key Ratios

Y/E March	FY14	FY15	FY16	FY17
Valuation Ratio (x)				
P/E (on FDEPS)	132.1	314.0	41.2	27.3
P/CEPS	59.7	66.9	27.2	18.5
P/BV	18.3	17.3	11.9	8.3
Dividend yield (%)	-	-	-	-
EV/Sales	3.9	4.9	2.5	1.8
EV/EBITDA	35.7	41.1	23.6	15.8
EV / Total Assets	12.6	12.3	8.4	5.2
Per Share Data (₹)				
EPS (Basic)	2.0	0.9	6.5	9.9
EPS (fully diluted)	2.0	0.9	6.5	9.9
Cash EPS	4.5	4.0	9.9	14.6
DPS	-	-	-	-
Book Value	15	16	23	33
Returns (%)				
ROCE	26.5	19.5	28.5	28.4
Angel ROIC (Pre-tax)	-	-	28.4	27.3
ROE	13.8	5.5	28.8	30.3
Turnover ratios (x)				
Asset Turnover (Gross Block)	4.0	2.7	4.7	5.6
Inventory / Sales (days)	16	22	21	17
Receivables (days)	22	42	46	39
Payables (days)	24	29	25	26
Working capital cycle (days)	15	35	42	30

Source: RHP, Angel Research

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