

ISSUE DETAIL :

Type	100% Book Building
Issue Size	Rs. 300 Crore
Offer Price	*Rs (263 - 270) / Share
Min App Size	55 Shares
Issue Open	26-Feb-18
Issue Close	28-Feb-18
Shares Offer	1.74 Cr.
Face Value	Rs 10

Lead Mgrs HDFC Bank Limited , SBI Capital
Markets Limited

Listing BSE, NSE

Registrar Link Intime India Private Ltd

Market Cap (Post Issue) 1759.6

No of shares (Post & Pre Issue)

Noof Shares(Pre Issue)	540,60,000
Offer for Sale	60,00,000
Fresh Issue made	111,11,111
No of Shares(Post Issue)	651,71,111

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RECOMMENDATION :

The order book of the company currently is ~ Rs 3078 Cr which is 3 times Book to Bill. DBL , PNC and Ashoka has book to bill at 5.5 times, 1.8 times and 2.7 times respectively. 95% of Order Book of HG infra comes from Maharashtra and Rajasthan basically from roads and Highways. The company is being offered at 22 times FY19E PE which is higher with peers like Dilip Buildcon is trading at 20 times FY19E PE. PnC infra is trading at 20 times FY19E Earnings and Ashoka at 17times. Considering the good track record of project execution but high valuations , we recommend **SUBSCRIBE for LONG TERM**

COMPANY OVERVIEW:

H.G. Infra Engineering Ltd (HGIEL) is Jaipur, Rajasthan based an infrastructure construction, development and management company. Company focus area is road projects, including highways, bridges and flyovers. Company's main business operations include providing engineering, procurement and construction (EPC) services on a fixed-sum turnkey basis and undertaking civil construction and related infrastructure projects. HGIEL is also engaged in executing water pipeline projects and are currently have two water supply projects in Rajasthan.

HGIEL has completed 13 large projects in the roads and highways sector aggregating to a total contract value of ₹16,748.94 million, which included construction, improving, widening, strengthening of two and four lane highways, construction of high level bridge and construction of earthen embankment, culverts and cart track underpasses. As of now company has 21 ongoing projects in the roads and highways sector.

HGIEL is pre-qualified to bid independently on an annual basis for bids by NHAI and MoRTH. HGIEL's public sector clients include NHAI, PWD, MES and Jaipur Development Authority

Company Strength

- ☑ Company has an experience of over 14 years in construction and development of major infrastructure road projects including highways, bridges, flyovers and other related infrastructure activities, across various states in India covering Rajasthan, Uttar Pradesh Haryana, Uttarakhand, Maharashtra and Arunachal Pradesh. Company focus is to strengthen market position in India in developing and executing EPC projects in the roads and highways sector.
- ☑ Company seek to evaluate opportunities of undertaking projects on the newly introduced hybrid annuity model by govt. This model aims to lower the financial burden on the concessionaire during project implementation phase.
- ☑ Company has also diversified in executing water supply projects and Company is currently undertaking two water supply projects on turnkey basis in Rajasthan. Company intend to diversify into, and shall consider bidding for, projects related to construction and maintenance of airport runways, projects related to railways and metros including earthwork and water treatment and sewerage related projects.

Industry Outlook :

Over FY13-17, the cumulative investments in infrastructure projects are pegged at Rs 30.9 trillion, of which government contribution has been 39% and roads comprised of 19%. During this period, investments by state governments grew by 14% while investment in roads grew by 11%. The thrust has been on private-public partnership and HAM models to ensure speedy construction and less requirement of equity while bidding.

CRISIL expects investment of Rs.4.3 trillion in national highways over FY18-22, a growth of about three-fold compared to last year. The investments in national highways are expected to pick up, as at present, the length of national highways is just 1.71% of the total road length, while national highways contribute 40% to the total traffic.

OBJECTS OF ISSUE:

Particular	Amount (Cr.)
Purchasing capital equipment	90
Repayment/ prepayment in part or in full, of certain indebtedness	115.5

ORDER BOOK (Clients or ownership)

Client	Number of contracts	Total contract value (Rs in Cr)	Order Book Value	% of order book
Private clients	5	1,757.85	1,197.08	32.29
Government clients	22	3,402.73	2,510.73	67.71
NHAI	5	1,045.47	298.70	8.06
MoRTH	7	1,904.59	1,895.80	51.13
State PWDs	5	264.17	193.51	5.22
Total	27	8,374.81	6,095.82	100

ORDER BOOK (Geographical distribution of projects)

Client	Number of contracts	Total contract value (Rs in Cr)	Order Book Value	% of order book
Rajasthan	16	2,384.58	1,653.27	44.59
Uttar Pradesh	1	126.93	44.03	1.19
Haryana	1	401.11	20.35	0.55
Uttarakhand	1	243.11	38.37	1.03
Maharashtra	7	1,904.59	1,895.79	51.13
Arunachal Pradesh	1	100.27	55.99	1.51
Total	27	5,160.59	3,807.80	100.00

COMPETITIVE RISKS

- ☒ The revenue from execution of projects in the roads and highways sector constituted approximately 86.00%, 86.02%, 89.57%, 85.95% and 92.89% of total revenue for the six months ended September 30, 2017 and for the years ended March 31, 2017, 2016, 2015 and 2014, respectively and 95.34% of standalone revenue in Fiscal 2013. The business and financial condition would be materially and adversely affected if we fail to obtain new contracts.
- ☒ The projects are required to achieve commercial operation no later than the scheduled commercial operation dates specified under the relevant EPC contracts, or by the end of the extension period, if any is granted by clients . Delays in the completion of construction of current and future projects could lead to termination of EPC contracts or cost overruns or claims for damages, which could have an adverse effect on cash flows, business, results of operations and financial condition.
- ☒ The Company is involved in certain legal proceedings at different levels of adjudication before various courts, tribunals and appellate authorities . The Company may need to make payments or make provisions for future payments, which may increase expenses and current or contingent liabilities and also adversely affect reputation.
- ☒ Revenues from any particular client may vary significantly from reporting period to reporting period depending on the nature of ongoing contracts projects and the implementation schedule and stage of completion of such 21 projects. The business is dependent on a few customers and the loss of, or a significant reduction in award of contracts by such customers could adversely affect business.

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	H1FY18
Revenue from Operation	365	741	1,055	567
Change (%)		103%	42%	
Total Operating Expense	321	663	935	488
EBITDA	44	78	120	80
Change (%)		78%	54%	
Margin (%)	12%	11%	11%	14%
Dep & Amortization	17	18	26	22
EBIT	27	60	95	58
Interest & other finance cost	16	16	19	15
Other Income	3	2	4	2
EBT	14	46	79	45
Tax	4	16	30	16
Reported PAT	9	30	49	29
Change (%)		227%	63%	
Margin(%)	2.5%	4.1%	4.7%	5.2%

Balance Sheet				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	H1FY18
Share Capital	15	18	18	54
Reserves	69	105	158	151
Networth	84	123	176	205
Non Current Liabilities				
Long term borrowing	16	28	63	113
Short term borrowing	38	59	93	143
Total Borrowing	53	87	157	256
Deferred Tax Liabilities				
Other long-term liabilities	9	9	30	38
Long-term provisions	0	1	1	1
Current Liabilities	-	-	-	-
Trade Payables	28.6	51.2	74.5	121
Other current liabilities	63	127	127	201
Short-term provisions	0	0	6	13
Total Liabilities	239	398	570	835
Fixed Asset	84	121	205	343
Deferred tax asset	0	1	2	2
Long-term loans and advances	16	19	18	30
Other non-current assets	10	7	6	15
Non Current Assets				
Inventories	21.8	43.5	49.2	64.3
Trade receivables	42.1	92.7	112.8	82.7
Cash and bank balances	4.7	4.4	17.0	3.4
Short-term loans and advances	29.3	68.4	99.2	112.8
Other current assets	31.0	41.0	60.9	181.8
Total Asset	239	398	570	835

Key Ratios			
Y/E March	FY15	FY16	FY17
EPS	1.42	4.64	7.57
Book Value Per share	12.97	18.83	27.02
Valuation(x)			
P/E (Upper Band)	190.60	58.23	35.66
P/E (Lower Band)	183.54	56.08	34.33
Price / Book Value	20.82	14.34	9.99
EV	1808	1842	1899
EV/Sales	4.95	2.49	1.80
EV/EBITDA	41.11	23.58	15.80
Profitability Ratios			
RoE	10.9%	24.6%	28.0%
RoCE	31.76%	48.79%	53.77%
Liquidity Ratios			
Net Debt/Equity	0.63	0.71	0.89
Interest Coverage Ratio	1.69	3.74	4.91
Current Ratio	1.86	1.59	1.70

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	H1FY18
Net Profit before tax	9.09	51.26	83.30	45.10
Adjustments for:				
Depreciation and Amortisation e:	17.15	18.34	25.60	21.72
Interest Income	(1.80)	(2.01)	(2.41)	(1.39)
Provision for doubtful debts	-	-	2.07	-
Net loss / (Profit) on sale / disposal	0.19	0.03	0.28	(0.06)
Finance costs	15.91	16.19	18.88	15.20
Operating Profit before Working Capital	41	84	128	81
Changes in working capital				
(Increase) / decrease in trade receivables	(13.10)	(50.57)	(22.19)	30.09
(Increase) in inventories	(1.29)	(21.75)	(5.67)	(15.10)
(Decrease) / increase in trade payables	(2)	23	23	47
Other long term liabilities	7.26	0.14	20.69	8.28
Increase in long term provision	0.08	0.17	0.19	0.23
Other current liabilities	7.63	49.12	(13.52)	(3.33)
Short term provision	0.16	0.14	(0.23)	0.24
long term loans and advances	(0.14)	0.32	(0.50)	(8.44)
short term loans and advances	1.29	(39.12)	(30.71)	(13.66)
Other assets	0.13	(0.16)	(10.18)	(113.92)
Cash generated from operations	41	45	89	12
Taxes paid	7	15	24	10
Net cash generated from Operations	33.69	29.47	64.39	2.19
Net Cash (used) in Investing Activities	(17.02)	(66.19)	(113.72)	(151.03)
Net Cash generated / (used) in Financing Activities	(14.92)	36.34	62.01	135.19
Net in cash and cash equivalents	1.74	(0.37)	12.68	(13.64)
beginning of the year	2.98	4.72	4.35	17.03
Net in cash at end of year	4.72	4.35	17.03	3.39

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