3 August 2022

H G Infra Engineering

Strong order addition, monentisation on the radar; retaining a Buy

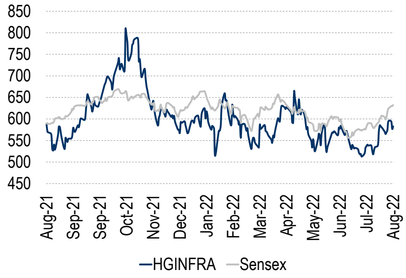
Rating: **Buy**
Target Price: Rs.898
Share Price: Rs.584

Key data	HGINFRA IN / HGIN.BO
52-week high / low	Rs.831 / 481
Sensex / Nifty	58351 / 17388
3-m average volume	$0.7m
Market cap	Rs.38bn / $475.6m
Shares outstanding	65m

Shareholding pattern (%)	Jun-22	Mar-22	Dec-21
Promoters	74.5	74.5	74.5
- of which, Pledged	-	-	-
Free float	25.5	25.5	25.5
- Foreign institutions	0.6	0.7	1.3
- Domestic institutions	14.2	13.9	13.9
- Public	10.7	10.8	10.3

Estimates revision (%)	FY23e	FY24e
Sales	-	-
EBITDA	-	-
EPS	1.9	1.9

Relative price performance



Source: Bloomberg

Its recent success with the Ganga Expressway EPC order from Adani has sufficiently bolstered HG's assurance, and its proven execution abilities keep us sanguine of an inspiring performance ahead. However, for it to realize the true potential of its life-high OB, timely receipts of appointed dates are critical. The comforting RoW status for most augur well. It realises the importance of churning assets to unlock capital for growth; thus, asset monetisation is being keenly considered. On the continuing healthy execution and re-assuring valuations, we retain our Buy rating, with a TP of Rs898 (a step up from Rs896).

OB at life-high. The recent success with the ~Rs44bn Ganga Expressway order from Adani (excl. GST) makes it the company's single largest EPC order, and ensured a strong start to the year. With this, the end-Q1 OB, at ~Rs115bn, is at an all-time high, and assurance is a sturdy ~3.1x TTM revenues. Timely receiving appointed dates for ~Rs64bn of the yet-to-be appointed orders is critical for it to realize the true potential of its OB. Envisaging a healthy pace of execution, and the need to replenish, orders of Rs50bn-60bn more are targeted for FY23.

Monetisation, keenness returning. With PCODs already in place for three hybrid annuity assets, and likely for the fourth in FY23, efforts have been gathering pace to monetise assets. Management realizes that churning assets is critical to unlocking capital for future growth, and is willing to settle for a discount not exceeding 10% of its estimated reasonable valuation.

Leverage rose, expected to moderate. The recent appointment of three hybrid annuities (since Mar'22), and consequent equity infusion needs (Q1: ~Rs1.75bn) hold the key to ~Rs2.8bn q/q higher net debt (at ~Rs4.4bn). Capex (~Rs0.45bn) and slow debt disbursals at hybrid annuity SPVs too had roles to play here. Nevertheless, with drawdown of mobilisation advances from the recent orders, and expected better payment cycles in H2, leverage is likely to moderate ahead.

Valuation. We retain revenue/operating profitability estimates, but earnings are altered a bit on taking FY22 actuals from the annual report. At the CMP, it (excl. investments) trades at a PER of 6.5x FY24e. **Risk:** Delayed appointed dates.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	21,961	25,350	36,152	45,125	54,611
Net profit (Rs m)	1,657	2,110	3,388	4,099	5,025
EPS (Rs)	25.4	32.4	52.0	62.9	77.1
Growth (%)	34.1	27.3	60.6	21.0	22.6
P/E (x)	6.7	9.2	10.7	9.3	7.6
EV / EBITDA (x)	4.0	4.7	6.5	5.8	4.7
P/BV (x)	1.4	1.9	2.7	2.2	1.7
RoE (%)	22.4	22.8	28.3	26.2	24.9
RoCE (%)	25.4	27.4	34.1	32.5	31.5
Net debt / equity (x)	0.3	0.0	0.1	0.1	0.1

Source: Company, Anand Rathi Research

Prem Khurana
Research Analyst

Meet Parikh
Research Associate

Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Order backlog	71,028	70,400	79,729	118,245	126,437
Order inflow	30,757	24,647	43,279	83,641	62,802
Net revenues	**21,961**	**25,350**	**36,152**	**45,125**	**54,611**
Growth (%)	*9.3*	*15.4*	*42.6*	*24.8*	*21.0*
Direct costs	17,064	19,808	28,682	36,280	43,961
SG&A	1,479	1,360	1,623	1,858	2,094
EBITDA	**3,419**	**4,181**	**5,847**	**6,986**	**8,555**
EBITDA margins (%)	*15.6*	*16.5*	*16.2*	*15.5*	*15.7*
Depreciation	756	844	851	901	1,028
Other income	141	80	78	96	108
Interest expenses	524	596	528	680	892
PBT	2,281	2,821	4,546	5,501	6,744
Effective tax rate (%)	*27.3*	*25.2*	*25.5*	*25.5*	*25.5*
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,657	2,110	3,388	4,099	5,025
Adjusted income	1,657	2,110	3,388	4,099	5,025
WANS (m)	65.2	65.2	65.2	65.2	65.2
FDEPS (Rs / sh)	25.4	32.4	52.0	62.9	77.1

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	652	652	652	652	652
Net worth	8,216	10,322	13,643	17,677	22,637
Debt	3,675	2,890	3,147	3,760	4,572
Minority interest	-	-	-	-	-
DTL / (Assets)	-87	-95	-114	-114	-114
Capital employed	**11,804**	**13,117**	**16,676**	**21,324**	**27,096**
Net tangible assets	4,824	4,831	4,590	4,888	4,860
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	111	18	22	42	35
Investments (strategic)	908	2,612	3,545	8,142	10,542
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	13,610	11,666	13,947	20,054	24,119
Cash	1,144	2,584	1,585	1,621	2,718
Current liabilities	8,794	8,595	7,012	13,424	15,179
Working capital	4,816	3,072	6,935	6,630	8,940
Capital deployed	**11,804**	**13,117**	**16,676**	**21,324**	**27,096**
Contingent liabilities	9,249	11,453	16,408	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT + Net interest expense	2,663	3,337	4,997	6,085	7,527
+ Non-cash items	756	844	851	901	1,028
Oper. prof. before WC	3,419	4,181	5,847	6,986	8,555
- Incr. / (decr.) in WC	325	-1,744	3,863	-305	2,310
Others incl. taxes	623	712	1,159	1,402	1,719
Operating cash-flow	2,471	5,214	825	5,889	4,526
- Capex (tang. + intang.)	1,073	757	613	1,221	993
Free cash-flow	1,398	4,457	212	4,669	3,534
Acquisitions					
- Div.(incl. buyback & taxes)	39	-	52	65	65
+ Equity raised	-	-	-	-	-
+ Debt raised	-132	-794	238	614	812
- Fin investments	708	1,704	933	4,597	2,400
- Net interest expense + misc.	376	520	465	584	783
Net cash-flow	142	1,440	-999	36	1,097

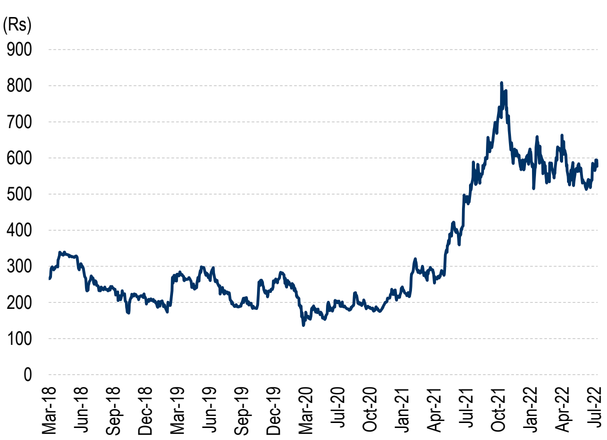
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	6.7	9.2	10.7	9.3	7.6
EV / EBITDA (x)	4.0	4.7	6.5	5.8	4.7
EV / Sales (x)	0.6	0.8	1.0	0.9	0.7
P/B (x)	1.4	1.9	2.7	2.2	1.7
RoE (%)	22.4	22.8	28.3	26.2	24.9
RoCE (%)	25.4	27.4	34.1	32.5	31.5
RoIC (%)	20.4	24.1	29.5	26.5	25.8
DPS (Rs / sh)	0.6	-	0.8	1.0	1.0
Dividend yield (%)	0.4	-	0.1	0.2	0.2
Dividend payout (%) - incl. DDT	2.4	-	1.5	1.6	1.3
Net debt / equity (x)	0.3	0.0	0.1	0.1	0.1
Receivables (days)	193	133	106	125	125
Inventory (days)	18	24	19	21	20
Payables (days)	103	72	44	60	60
CFO : PAT %	149.1	247.2	24.4	143.7	90.1

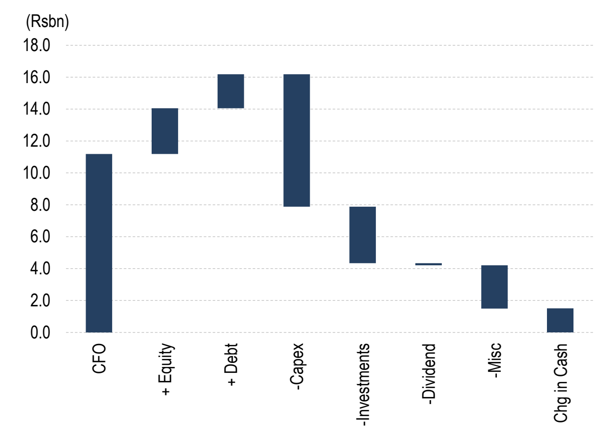
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Cumulative capital allocation: FY13 – FY22



Source: Company

Result / Concall Highlights

Income statement

- **Comforting Q1 revenue, sound execution on display.** The continuing healthy pace of execution at its appointed order backlog at the start of the quarter, and the Q1 FY23 appointment of two more orders (of an aggregate EPC value of ~Rs22bn) helped to ~17% y/y (and ~4% q/q) higher Q1 FY23 revenue from operations (~Rs10.7bn). Besides healthy project execution, the y/y growth is attributable to the Covid-impacted base. Sequential growth is more appealing as it comes on the backdrop of seasonality involved with the business (Q1 more often than not tends to be weaker than the preceding Q4).
  - Besides the healthy pace of execution, Q1 FY23 revenue was supported by ~Rs0.7bn of approved price escalations. The change-in-scope and utility shifting too appear to have contributed.
  - The three EPC packages of the Delhi-Vadodara stretch continued to contribute well, but the recent appointment of three hybrid annuities (one in Mar'22, two in Q1 FY23) meant it loses the pole position to the captive hybrid annuity projects.
  - The appointed seven hybrid annuity projects (of a total of nine) appear to have contributed in excess of Rs2.5bn during Q1 FY23.

Fig 7 – Financial highlights

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	% Y/Y	% Q/Q
Revenue from operations	2,979	4,674	7,343	10,308	9,117	7,496	9,224	10,259	10,657	*16.9*	*3.9*
EBITDA	491	769	1,181	1,694	1,485	1,218	1,521	1,568	1,625	*9.4*	*3.6*
EBITDA margins (%)	*16.5*	*16.5*	*16.1*	*16.4*	*16.3*	*16.3*	*16.5*	*15.3*	*15.2*	*-105bps*	*-4bps*
Interest	122	138	144	192	119	125	125	160	144	*21.1*	*-9.9*
Depreciation	195	208	216	226	203	213	216	218	201	*-0.8*	*-7.8*
Other income	27	16	34	48	34	51	21	27	33	*-2.7*	*24.0*
PBT	201	439	856	1,324	1,197	932	1,201	1,216	1,312	*9.6*	*7.9*
Tax	50	113	201	348	308	233	312	305	336	*9.0*	*10.0*
PAT	151	327	655	977	889	698	889	911	976	*9.8*	*7.2*
EPS (Rs)	*2.3*	*5.0*	*10.1*	*15.0*	*13.6*	*10.7*	*13.6*	*14.0*	*15.0*	*9.8*	*7.2*

Source: Company

  - With the recent appointment of three of its hybrid annuity projects, and as it expects the yet-to-be appointed balance four projects (two each of EPC and hybrid annuity projects) to be appointed during the course of the year, management looks at ~Rs50bn revenue as attainable in FY23.
  - The envisaged key contributors in the balance 9M FY23 are: the Ganga Expressway (~Rs10bn, awaiting an appointed date), three more yet-to-be-appointed projects (Rs4bn-5bn), the three recently-appointed hybrid annuities (~Rs10bn), Karala-Kanjhawala NHAI EPC (~Rs5.5bn), the three older hybrid annuities (~Rs1.4bn), the Delhi-Vadodara packages (Rs4.5bn-4.6bn) and Adani's Mancherial project (~Rs2.25bn). This totals to ~Rs38bn revenues.
- **Inflation squeezes operating profitability.** The ~165bps y/y compressed gross margin (mostly on input-prices) and ~21% y/y higher employee expenses (on more manpower) compressed HG's Q1 EBITDA margin ~105bps y/y to ~15.2%. Sequentially, operating

leverage helped make good for the ~237bps lower gross margin. Consequently, the EBITDA margin was largely flat.

- Its Q1 FY23 margin lagged the guided-to 15.5-16%. With the recent moderation in prices of some key inputs, on more contribution from the recently added orders, and envisaging a better scale, management looks to return to the guided-to range by Q3 FY23.

■ **Earnings mostly track operating profitability.** Q1 earnings were a healthy ~Rs976m. The ~10% y/y higher earnings were mostly the result of higher absolute operating profitability (up ~9% y/y) and contained depreciation (down ~1%, on limited capex). The higher effective tax rate partly contained the earnings performance. Sequentially, earnings rose ~7% on a mix of ~4% higher operating profitability, ~8% lower depreciation and ~10% lower finance costs. Were it not for the higher effective tax rate, sequential growth could have been better.

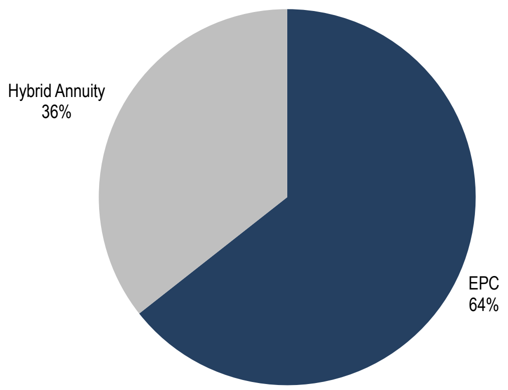
Order backlog and scope

■ During the quarter, the company secured its single largest EPC order, from Adani Road Transport, of ~Rs49.7bn (incl. GST) to construct the six-lane greenfield Ganga Expressway in Uttar Pradesh. Adjusted for the GST, the EPC potential is pegged at ~Rs44.4bn. This is HG's second project from Adani.

- With this huge an order, the start to the year has been inspiring, and has set it sailing on its full-year order-addition guidance of Rs90bn-100bn.

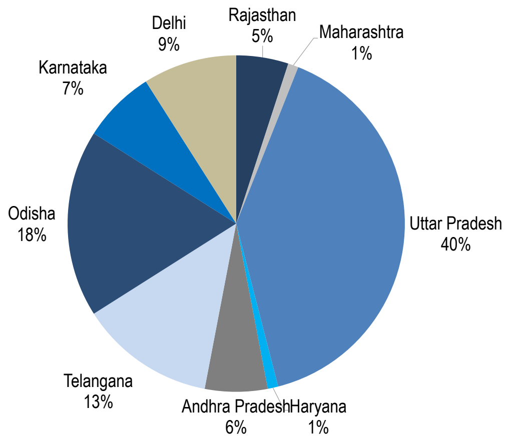
■ The EPC potential from the lone Q1 order far exceeded works carried in the quarter. Consequently, the order backlog rose ~Rs35.3bn q/q to close Q1 FY23 at a life-high ~Rs115.1bn. With this sharp an improvement, the assurance, at ~3.1x TTM revenue, turned sturdier (from ~2.2x at end-FY22).

Fig 8 – Q1-end OB @ ~Rs115.1bn; revenue assurance at ~3.1x



Source: Company Note: The charts denote split for end-Q1 OB

Fig 9 – With Ganga Expressway, UP dominates the OB



Source: Company

- For the sheer size of the project, the OB composition has had some changes. On inclusion of this order, the share of Uttar Pradesh is up steeply (from ~0.02% the quarter prior to ~40%), and private orders now make up ~42% of the total (up from ~7.5% at end-FY22). The split between EPC and hybrid annuities too has changed materially, with EPC now accounting for ~64% (against ~45% a quarter ago).

  - Though the order backlog is at its life-high, orders with an aggregate EPC value of ~Rs63.6bn have yet to attain appointed dates. These include an EPC order from the NHAI (~Rs8.4bn, appointment likely by end-Aug'22), the two Telangana hybrid annuity orders (~Rs12.4bn, appointments likely by Oct'22 and end-Nov'22) and the recently added Ganga Expressway project (~Rs44.4bn, appointed date likely by end-Sep'22).

- Management remains sanguine of the growth opportunities in roads and otherwise. It sees the recent ordinary bid prospects from the NHAI as temporary, and expects the NHAI awarding (as seen in the past many years) to be H2 heavy. To reduce dependence on roads, and to broadbase growth prospects, management continues to evaluate bids in segments like Railways, Water and Metro-rail. Consequently, it is sanguine regarding healthy order-additions in the rest of the year, and targets FY23 order additions at Rs90bn-100bn (unchanged).
  - Of the FY23 guided-to figure, ~Rs44bn has already been secured in the form of the Ganga Expressway project. Of the balance, management sees roads to contribute Rs35bn-40bn, and newer segments to make up another Rs10bn-15bn. Within Roads, management sees additions in the remainder of FY23 to be hybrid annuities heavy.
  - Currently, it has bid for three NHAI orders, two Railway orders, and an order each in the Metro-rail and Water segments awaiting outcomes. The EPC potential for all these was pegged at ~Rs70bn.
  - Management does not see any qualification issues for the Metro-rail or Railway orders. It highlights that it has the requisite qualifications already in place. In Water, it does not have any large pre-qualifications; thus, orders are expected with and through a JV.
  - For the water orders under the Jal-Jeevan Mission, management has its eyes set on opportunities in three states, Uttar Pradesh, Madhya Pradesh and Rajasthan. Management had earlier talked of looking to bid for projects with sizes averaging Rs3bn-7bn.
  - On competition in roads, it sees irrational bidding by some in the recent past to come to hurt them and this, it believes, would lead to gradual moderation in competition. Competition exists in other segments as well, but it sees enough opportunities for it to bag orders at its margin thresholds. Management does not intend to compromise on margins just to enter a new segment. In its recently participated Railways-order bids, HG emerged L4 or L5.

Project updates

- **Ganga Expressway.** The company secured one of the biggest orders in its history from Adani Road Transport Highways on 6th Jun'22. The project entails construction of 152km of access-controlled six-lane expressway project in Uttar Pradesh. Incl. GST, the project potential is pegged at ~Rs49.7bn; excl. GST, the EPC potential works out to ~Rs44.4bn. The RoW status is comforting, at ~98%. With RoW mostly in place, HG expects to sign the concession agreement soon, and receive an appointed date by end-Q2. The company can avail of the mobilisation advance of ~5% of the project. The project has an execution timeline of 27 months, and provision for an early-completion bonus if finished within 24 months.

- **The Jodhpur (World Bank-funded) project.** Work at this project is still slow with cumulative progress at ~91% (up from ~89% a quarter ago). Pending work at the quarter's end was ~Rs0.54bn (down ~Rs120m q/q).
- **Delhi-Vadodara Package-4.** Execution at this EPC project has been good, with cumulative progress at ~99.4% (up from ~99% at end-FY22). The balance outstanding work for the project is ~Rs53m (down from ~Rs99m a quarter ago). The completion certificate was received on 1st Aug'22 with 26th Jun'22 as the effective completion date.
- **Delhi-Vadodara Package-8.** Work at this project has been going smoothly, with cumulative progress of ~84% at end-Q1 (up from ~75% at end-FY22). Pending works for the project at the end of the quarter were ~Rs1.3bn (down ~Rs0.75bn q/q). Management expects to complete the project by end-Q2 or the start of Q3 FY23.
- **Delhi-Vadodara Package-9.** Execution at this project has been strong, with the cumulative progress jumping to ~73% (from ~59% a quarter ago). The balance outstanding works at end-Q1 were ~Rs3.3bn (down ~Rs1.6bn q/q). The completion of this project is envisaged by end-Q2 or Q3FY23 start.
- **Mancherial-Repallewa.** Execution at this project has been smooth, with cumulative progress pegged at ~64% (up from ~56% a quarter ago). The balance OB from this project was ~Rs3.3bn (down ~Rs0.75bn q/q). The project is due for completion in this financial year. Management earlier planned to apply for PCOD by end-Jun'22 and receive approval by Jul'22.
- **Hapur-Moradabad.** Cumulative progress for this IRB project at the quarter's end was ~91% (up from ~78% a quarter back). The balance outstanding works for the project at end-Q1 were of ~Rs774m (down ~Rs1.1bn q/q). The company has already received the completion certificate for the project. There was no fresh update on dues from the project, but at end-FY22 its trade receivables were pegged at ~Rs1.67bn (excl. retention monies).
- **The six-lane Urban Extension road project (EPC).** Execution at this project has picked up, with cumulative progress at end-Q1 at ~14% (up from ~4% a quarter ago). Outstanding works in the OB at the quarter's end were of ~Rs10.7bn (down ~Rs1.17bn q/q). Management expects the project to contribute ~Rs5.5bn during the remainder of FY23.
- **Neelmangala-Tumkur.** With more than ~90% RoW available and the concession agreement signed, the company expects to obtain the appointed date for this NHAI EPC road project by end-Aug'22.
- **Gurgaon-Sohna.** The project has already received the PCOD, on 25th Feb'22. Cumulative equity infused was pegged at ~Rs729m (no change from the previous quarter). Outstanding debt at the quarter's end was ~Rs2.8bn (up ~Rs316m q/q). With PCOD attained, the project is a ready candidate for monetisation.
- **Rewari-Ateli-Mandi.** Physical progress at end-Q1 was ~99% (up from ~95% a quarter ago). Cumulative equity infused at end-Q1 was ~Rs719m (up ~Rs31m q/q). The project SPV received the PCOD (effective 15th Nov'21) 170 days ahead of the revised completion date (extension for Covid-19 disruption), rendering it eligible to receive the early-completion

bonus. Outstanding debt at end-Q1 was ~Rs2.13bn (up ~Rs144m q/q). It also is a candidate for monetisation, as PCOD is already in place.

- **Narnaul-Bypass.** The project SPV received 11th Mar'22 as the effective PCOD. This is 255 days ahead of the scheduled completion, which makes it eligible for an early-completion bonus. Physical progress is pegged at ~100% (up from ~98% a quarter back). Cumulative equity infused is ~Rs1.2bn (no new equity infused during the quarter). Outstanding debt at end-Q1 was ~Rs3.4bn (up ~Rs33m q/q). The company is in advanced talks to monetise the asset.

Fig 10 – Under-construction and yet-to-be appointed hybrid annuities, details at a glance

Particulars	Rewari Bypass	Raipur-Visakhapatnam AP-1	Raipur-Visakhapatnam OD-5	Raipur-Visakhapatnam OD-6	Khammam Devarapalle Pkg-1	Khammam Devarapalle Pkg-2
Project length (km)	14.4	31.8	44.0	45.5	33.6	29.5
Award date	26th Dec'19	25th Mar'21	25th Oct'21	25th Oct'21	15th ep'21	15th Sep'21
Financial closure	Achieved	Achieved	Achieved	Achieved	Not Achieved	Achieved
Appointed date	15th Jan'21	31st Mar'22	30th May'22	1st Jun'22	Awaited	Awaited
Construction period (years)	2	2	2	2	2	2
Physical progress at end-Q1 FY23 %	74	10	6	6	-	-
Concession period after COD (years)	15	15	15	15	15	15
Bid project cost (Rs m)	5,220	10,601	14,921	11,231	7,721	6,371
Means of finance (Rs m)						
NHAI grant	2,088	4,240	5,968	4,492	3,088	2,548
Debt	2,200	4,520	6,670	5,150	3,100	2,560
Equity	820	1,519	2,289	1,437	1,329	1,097
O&M cost (1st year)	50	40	50	50	70	60
Invested / Availed of (Rs m)						
Debt	1,258	-	-	-	-	-
Equity	557	786	1,222	39	4	4

Source: Company

- **Rewari-Bypass.** Progress has been swift with ~74% physical progress already attained (from ~60% a quarter back). During the quarter, the company infused ~Rs92m, taking the cumulative equity infused to ~Rs557m. The SPV availed of debt of ~Rs0.4bn during the quarter, taking outstanding debt to ~Rs1.25bn. The company expects to receive PCOD for the project in FY23.

- **Raipur-Visakhapatnam AP-1.** On this ~Rs7.7bn hybrid annuity project, the SPV obtained the appointed date effective 31st Mar'22. Physical progress is pegged at ~10% (up from ~2% a quarter ago). Cumulative equity infused at end-Q1 was ~Rs786m (~Rs398m infused during the quarter). The SPV has yet to draw any debt.

- **Raipur-Visakhapatnam OD-5.** On this ~Rs12.8bn hybrid annuity project, the SPV attained the appointed date effective 30th May'22. ~80% of the RoW is available. Physical progress is pegged at ~6%. During the quarter, the company infused equity of ~Rs1.19bn (cumulative equity infused is ~Rs1.22bn). The SPV has yet to draw any debt.

- **Raipur-Visakhapatnam OD-6.** At this ~Rs9.5bn hybrid annuity project, the SPV attained the appointed date effective 1st Jun'22. ~80% of RoW is available. Physical progress is pegged at ~6%. Cumulative equity infusion is ~Rs39m (~Rs37m infused during the quarter).

- **Hybrid annuity and EPC projects awaiting appointed dates.** The company yet awaits appointed dates for four projects with EPC potential of ~Rs63.6bn. These include two hybrid annuity projects and two EPC projects (one each from the NHAI and Adani). The status is:
  - Of the two hybrid annuity projects awaiting appointed dates, financial closure for Khammam Devarapalle Pkg-2 with a bid project cost of ~Rs6.4bn (and ~Rs5bn EPC potential) has been attained on 20th Jul'22. Management expects the appointed date by end-Q2 FY23. For this package, RoW is healthy at ~95%.
  - For Khammam Devarapalle Pkg-1, the RoW is at ~52% (no change from the previous quarter). Management expects to sign the concession agreement by Sep'22, and looks to attain the appointed date by end-Nov'22. In-principle approval for financial closure is already in place. The bid project cost is ~Rs7.7bn, and the EPC potential is envisaged at ~Rs6.1bn.
  - For the recently secured ~Rs44.4bn Ganga Expressway project from Adani, the RoW status is a healthy ~98%. Management expects to sign the agreement soon and expects to receive the appointed date by end-Sep'22.
  - At the ~Rs8.4bn NHAI road EPC project (Neelmangala-Tumkur) secured in Q4 FY22, the RoW status is a healthy ~90%. With the concession agreement already signed (on 27th May'22), the company expects to receive the appointed date by end-Aug'22
- **Equity infusion schedule for hybrid annuity projects.** Such equity infusion needs could be divided into two: In the seven already-appointed projects, a further ~Rs1.75bn equity was infused in Q1 FY23, and cumulative equity infused in the yet-to-be-appointed projects was the same as in the last quarter (Rs8m). This takes cumulative equity infused in all the projects to ~Rs5.3bn.
  - The two Q1-appointed hybrid annuity projects entailed equity infusion of ~Rs1.23bn during the quarter, and cumulative equity infused at end-Q1 was ~Rs1.26bn.
  - The hybrid annuity project appointed in Mar'22 required equity infusion of ~Rs0.4bn during the quarter, taking the cumulative infusion to ~Rs0.79bn.
  - For the entire hybrid annuity portfolio (comprising nine assets), total equity infusion needs are estimated at ~Rs11.4bn. With ~Rs5.3bn already infused, the balance ~Rs6.1bn is to be infused by FY25-end.
  - Equity infusion needs for the remainder of FY23 are estimated at ~Rs2.86bn; FY24 is likely to entail another ~Rs2.08bn. The balance would be due in FY25. Management looks to meet the equity needs mostly from internal accruals.
- **Completions.** Of its first four hybrid annuity projects, Rewari-Ateli-Mandi attained PCOD effective 15th Nov'21, Gurgaon-Sohna received PCOD wef 25th Feb'22, and 11th Mar'22 was approved as the PCOD for the Narnaul Bypass.
  - Its Rewari-Ateli-Mandi project was completed 170 days ahead of the revised scheduled completion date, and the Narnaul Bypass project was 255 days ahead. Consequently, these two SPVs are eligible for

early-completion bonuses. Management estimates the quantum at ~Rs260m.

- Besides these projects, the company expects to receive the PCOD for the Rewari Bypass Pkg-4 in H2 FY23.
- The company has already received the completion certificate for IRB's Hapur Moradabad. For Adani's Mancherial-Repallewa, it expects to receive the PCOD by end-Q2 or Q3 FY23.
- For the Delhi-Vadodara Pkg-8 and Pkg-9, the company expects to receive completion certificates by end-Q3 FY23 or Q4 FY23.

- **Monetisation, keenness returning.** With PCODs already in place for three hybrid annuity assets (Gurgaon-Sohna, Rewari-Ateli-Mandi and the Narnaul Bypass), and likely for the fourth (Rewari Bypass Pkg-4) in FY23, efforts have been gathering pace to monetise assets. Management realises that churning assets is critical to unlocking capital for future growth, and is willing to settle for a discount not exceeding 10% of estimated reasonable valuations.
  - Management highlights that it is already in discussion with three potential buyers for monetisation of assets, and expects progress in FY23.
  - The receipt of semi-annual annuities (post-PCOD), and commencement of O&M works (hence, better clarity on possible margins), management believes, would add credibility to the offering, and, thus, make it more lucrative.
  - Management does not intend to monetise assets at desperate valuations, as it sees its current scale good enough to support annual hybrid annuity orders of ~Rs30bn-40bn.

Balance sheet

- ~Rs1.75bn equity infused in hybrid annuity SPVs in Q1 FY23 and ~Rs0.45bn capex were the two key contributors to ~Rs2.8bn q/q higher net debt (at ~Rs4.4bn on 30th Jun'22). The balance could be attributed to working capital needs for greater scale and delayed debt disbursals for hybrid annuity SPVs (consequently, higher receivables).
  - SPV receivables have receded subsequent to the quarter (on disbursal of project debt), and pending mobilisation receipts from the recent orders (as and when drawn), management highlights would help prune debt.
  - The movement in net debt was a mix of higher gross debt (~Rs4.48bn, up ~Rs1.3bn q/q) and lower cash & equivalents (~Rs88m, down ~Rs1.5bn q/q). Working capital facilities comprised ~Rs1.2bn (up ~Rs0.8bn q/q) of the gross debt, term loans were ~Rs2.3bn (up ~Rs0.5bn q/q) and the balance is explained by the NCDs (~Rs0.97bn, the same as the last quarter).
  - NCDs were availed of in Q3 FY22, and entail 18 months repayment, with the first instalment due in Jun'23. We believe the NCDs would have been raised to improve the maturity profile as well as to hedge against the anticipated higher interest rates ahead. The NCDs come with an 8% coupon rate.
  - On the considerable rise in net debt, the net debt-to-equity ratio rose from ~0.11x on 31st Mar'22 to ~0.3x at end-Q1 FY23.

- The continuing healthy pace of project execution at the hybrid annuities being constructed, and consequent drawdown of project finances by the SPVs to fund the projects, led to consolidated net debt rising ~Rs3.7bn q/q to ~Rs13.9bn.
  - Standalone net debt appears to have contributed ~Rs2.8bn to the total q/q rise in the consolidated figure; the balance of ~Rs0.9bn, thus, is attributable to project-level SPVs.
  - The end-Q1 consolidated gross debt (of ~Rs14.1bn, up from ~Rs11.8bn at end-FY22) comprised standalone debt of ~Rs4.48bn and SPV-level debt of ~Rs9.6bn (up from ~Rs8.7bn a quarter back).
- On its working capital, unbilled revenues contracted ~Rs0.4bn q/q to ~Rs3.1bn, trade payables were up ~Rs1.2bn q/q to ~Rs5.5bn. Mobilisation advances too rose ~Rs0.75bn q/q to ~Rs2.9bn. However, the release of working capital from the above three was mostly offset by ~Rs1.7bn higher trade receivables q/q (to ~Rs8.7bn, incl. ~Rs1.85bn of retention monies). Inventories too rose ~Rs0.35bn q/q to ~Rs2.2bn, and impacted cash-flow generation.
- With it expecting gross ~Rs3.5bn of mobilisation advances from the recent orders (~Rs2.6bn net, on adjustments of mobilisation advances against bills), and healthy CF generation even otherwise, management sees operations as good to generate positive cash-flows. Consequently, it expects gross debt to reduce to ~Rs3.5bn by the year-end (from ~Rs4.5bn at end-Q1).
  - Management expects mobilisation advances and internal accruals not only to suffice for working capital needs for the targeted better scale, but also to meet equity infusion needs (of ~Rs2.9bn) in the balance quarters of FY23.
- Management pegs fund-/nonfund-based limits at ~Rs15bn, and utilisation at ~Rs11bn. This leaves it with ~Rs4bn-5bn of unutilised limits (mostly non-fund based) to grow the business. It does not see the limits as posing any growth challenges, and has already sought approval for more limits (of ~Rs5bn). The recent rating upgrade would help.

Guidance

- With the recent Ganga Expressway order of ~Rs44.4bn, the start to the year has been encouraging, and sets the company sailing on its FY23 inflow guidance of Rs90bn-100bn. Management looks to ~Rs70bn of bids already placed (awaiting outcomes), and envisaged healthy awarding in H2 (as the case tends to be, owing to seasonality) to deliver on its inflow guidance. Of the orders targeted in FY23, management looks to have Rs10bn-15bn from newer segments (railways, metro-rail and water).
- Having made a healthy start to the year with ~Rs10.7bn of Q1 FY23 revenue from operations, management retained its revenue guidance of ~Rs50bn for FY23. It is sanguine of its guidance, as it expects the entire OB to be appointed by Nov'22. Consequently, it expects the recent orders too to contribute meaningfully to FY23 revenues.
  - Management expects the Ganga Expressway to contribute ~Rs10bn, three more yet to be appointed projects (Rs4bn-5bn), the three recently appointed hybrid annuities (~Rs10bn), and Karala-Kanjhawala NHAI EPC (~Rs5.5bn). Management expects the older orders to contribute over Rs8bn in the balance three quarters.

  - For FY24, management is targeting revenue of ~Rs60bn. This would imply ~20% growth over FY23.

- The Q1 FY23 margin of ~15.2% lagged management's guided to 15.5-16%. With the recent moderation in some key inputs, and as it expects its recently added orders (better reflecting the current inflationary context) to turn contributing in H2, management expects margins to return to the guided-to range in Q3.
- Equity infusion, capex and working capital needs took gross debt up ~Rs1.3bn q/q to ~Rs4.5bn. Management sees healthy internal accruals and pending mobilisation receipts from the recent orders (~Rs3.5bn on a gross basis) to help gross debt shrink to ~Rs3.5bn by end-FY23.
- Management slightly raised its FY23 gross capex guidance from Rs1.1bn-1.2bn guided to earlier to ~Rs1.35bn now. Of this, ~Rs0.45bn has already been incurred (in Q1), and the balance is likely to be spread over the next three quarters. Management highlights that capex, net of ~Rs0.4bn deletions/divestments, would be ~Rs0.9bn in FY23.

Valuation

We retain our FY23 and FY24 inflow, revenue and operating profitability estimates. However, earnings are slightly higher as we take into account FY22 actuals from the annual report.

Our sum-of-parts-based target price is derived using a 10x P/E multiple for FY24e construction earnings (Rs771 a share, from Rs757 earlier) and hybrid annuity assets at a 20% discount to the invested value (Rs127 a share, down from Rs140 earlier). The per-share target price works out to Rs898 (against Rs896 earlier).

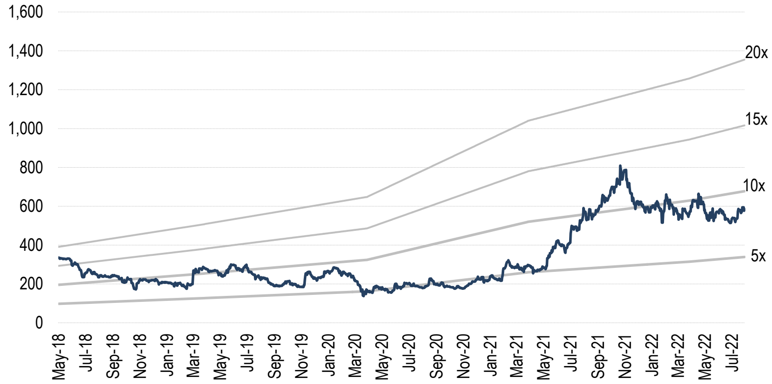
At the ruling price, (excl. investments) the stock trades at a PER of 8.3x FY23e and 6.5x FY24e.

Fig 11 – Change in estimates

(Rs m)	Old		Revised		% change	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	45,125	54,611	45,125	54,611	-	-
EBITDA	6,986	8,555	6,986	8,555	-	-
EPS (Rs)	61.7	75.7	62.9	77.1	*1.9*	*1.9*

Source: Anand Rathi Research

Fig 12 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Considerable delay in receipt of appointed dates.
- Working-capital deterioration.

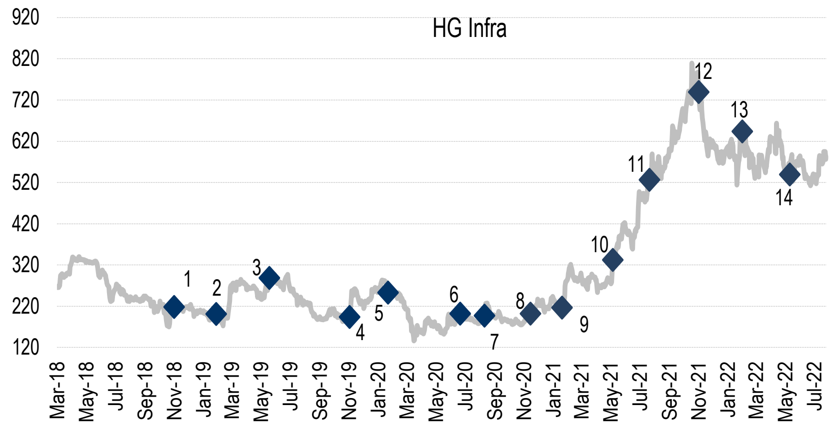
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 3 August 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	9-Nov-18	Buy	274	219
2	5-Feb-19	Buy	294	206
3	27-May-19	Buy	374	292
4	11-Nov-19	Buy	377	194
5	30-Jan-20	Buy	404	267
6	29-Jun-20	Buy	311	201
7	19-Aug-20	Buy	291	192
8	11-Nov-20	Buy	298	186
9	30-Jan-21	Buy	382	217
10	16-May-21	Buy	493	333
11	8-Aug-21	Buy	703	571
12	11-Nov-21	Hold	879	740
13	6-Feb-22	Buy	898	630
14	25-May-22	Buy	896	524

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity, SEBI Regn No. INH000000834, Date of Regn. 29/06/2015) is a subsidiary of the Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX), and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged into the business of Stock Broking, Depository Participant, Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No
ARSSBL/its Associates/ Research Analyst/ his Relative has been engaged in market making activity for the subject company.	No

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.