

## ANALYST CORNER

# Initiate coverage on HG Infra with 'buy'; target price at ₹375

### Reliance Securities

**HG INFRA ENGINEERING** (HGI), a newly listed company, is primarily engaged in EPC, civil construction works and related infrastructure projects on item rate and lump sum basis. Roads & Highways segment – which is HGI's key area of operation – forms a dominant portion of its total order book.

While current order book of ₹5,060 crore (4.8x FY17 revenue) provides robust growth visibility, HGI is expected to add big chunk of orders to its kitty, led by improvement in financial prequalification and enormous opportunity in Roads & Highway segment. Further, diversification into newer geographies and water segment is likely to propel HGI to sustain growth, in our view.

Expecting HGI's revenue and earnings to clock 31% and 46% CAGR, respectively through FY17-FY20E, we initiate our coverage on the stock with 'buy' recommendation and one-year Target Price of ₹375. The visible development in Roads & Highways space along with likely further pick-up in projects awarding across the country and government's increased allocation

for the segment are likely to aid HGI to improve its order book further.

Further, improvement in financial pre-qualification post the fund raising through IPO is expected to result in higher order book in coming quarters.

HGI witnessed an exponential improvement in its order book to ₹4,000 crore in FY17 from ₹1,100 crore in FY15 (94% CAGR). Its current order book at ₹5,060 crore (4.8x of FY17 revenue) including L1 of ₹1,350 crore provides a healthy revenue visibility. We expect HGI to witness an order inflow of ₹2,500 crore and ₹3,000 crore for FY19E and FY20E, respectively. Considering fund-based limit of ₹430 crore and non-fund based limit of ₹500 crore, we believe it should not face any financial constraint to execute the current order book.

In order to mitigate concentration risk and exploit the upcoming infrastructure opportunities in other geographies, HGI has been geographically diversifying for last couple of quarters. It currently operates in six states including Uttar Pradesh and it intends to selectively expand into other states, which is expected to aid HGI to sustain growth, going forward.