



SMC Ranking
 ★★☆☆☆ (2.5/5)

Issue Highlights

Industry	Infra/Construction
Total Issue (Shares) - Offer for sale	6,000,000
Total Issue (Shares) - Fresh Issue	11,111,111
Net Offer to the Public	17,111,111
Issue Size (Rs. Cr.)	450-462
Price Band (Rs.)	263-270
Offer Date	26-Feb-18
Close Date	28-Feb-18
Face Value	10
Lot Size	55

Issue Composition

	In shares
Total Issue for Sale	17,111,111
QIB	8,555,556
NIB	2,566,667
Retail	5,988,889

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	73.74%
QIB	0.00%	13.13%
NIB	0.00%	3.94%
Retail	0.00%	9.19%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The Offer comprises a Fresh Issue of ₹300 Cr and an Offer for Sale of up to 6,000,000 Equity Shares.

The Offer for Sale

Each of the Selling Shareholders will be entitled to the respective proportion of the proceeds of the Offer for Sale. Company will not receive any proceeds of the Offer for Sale by the Selling Shareholders.

The Fresh Issue

The Net Proceeds of the Fresh Issue are proposed to be utilized by the Company for the following objects:

- Purchasing capital equipment;
- Repayment/ prepayment in part or in full, of certain indebtedness; and
- General corporate purposes.

Book Running Lead Manager

- HDFC Bank Limited
- SBI Capital Markets Limited

Name of the registrar

Link Intime India Private Limited

About the Company

Incorporated in 2003, H.G. Infra Engineering Ltd (HGIEL) is an infrastructure construction, development and management company with extensive experience in its focus area of road projects, including highways, bridges and flyovers. The Company's main business operations include providing 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 currently have two water supply projects in Rajasthan.

Strength

Established roads and highways sector focused construction developer: The Company has an experience of over 14 years in construction and development of major infrastructure road projects. Its 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 its total consolidated revenue in the six months ended September 30, 2017 and Fiscals 2017, 2016, 2015 and 2014, respectively, and 95.34% of its standalone revenue in Fiscal 2013. As of November 30, 2017, its total Order Book in terms of contract value including escalation is Rs. 3707.81 Cr comprising of 27 ongoing projects in Rajasthan, Uttar Pradesh Haryana, Uttarakhand, Maharashtra and Arunachal Pradesh. The size of its Order Book for its roads and highways projects grew from Rs 855.17 Cr as of March 31, 2015, to Rs. 1257.42 Cr as of March 31, 2016 and Rs. 3919.85 Cr as of March 31, 2017 at a CAGR of 114.09%.

Efficient business model: The growth of the company is largely attributable to its efficient business model, which involves careful identification of its projects and cost optimisation, which is a result of executing its projects with careful planning and strategy. This model has facilitated the company in maximising its efficiency and increasing its profit margins.

Strong project management and execution capabilities: Over the last five years, the Company has executed 13 projects above the contract value of ₹ 40.00 Cr in the roads and highways sector. Its focus is to leverage its strong project management and execution capabilities in order to complete its projects in a timely manner while maintaining high quality of construction. Over the years, the company has been consistently invested and created a fleet of modern construction equipment to ensure high quality and timely execution of its projects. In the last three years, the company has invested ₹ 172.74 Cr towards procurement of plant and machinery for its projects.

Visible growth through its growing Order Book and improved pre-qualification credentials: Its order book has grown significantly over the last three years, from Rs. 1067.70 Cr as of March 31, 2015, to Rs.1446.27 Cr as of March 31, 2016 and Rs. 40,20 cr as of March 31, 2017, respectively. As of November 30, 2017, its total order book was Rs. 3707.81 Cr, with government contracts accounting for 67.71% and private contracts accounting for 32.29% of the Order Book. Road and highway projects dominate the order book. The company believes that its track record of completed projects, its existing portfolio and its financial performance allows the company to meet the qualification requirements for a large number of new projects in the roads and highways sector.

Strategies

Continue focusing on its EPC business in the roads and highways sector and enhancing execution efficiency: The Company's primary focus is to strengthen its market position in India in developing and executing EPC projects in the roads and highways sector. Over the next few years, the company says that it will continue to focus on the operation, maintenance and development of its existing projects while seeking opportunities to expand its EPC projects in the roads and highways sector. It intends to

capitalize on its experience and project execution expertise and continue to selectively pursue EPC projects in the roads and highways sector, both independently and in partnership with other players.

Selectively expand its geographical footprint: The Company started its operations in Rajasthan and has gradually expanded in other states including Uttar Pradesh, Haryana, Uttarakhand, Maharashtra and Arunachal Pradesh. It plans to continue its strategy of diversifying and expanding its presence in different states for the growth of its business. The company believes that its strategy of selective expansion helps it in mitigating diversification related risks. It currently expects that a significant portion of its geographic expansion will be in states such as Gujarat, Punjab and Madhya Pradesh, which have favourable geographic and climatic conditions.

Selectively explore hybrid annuity based model to optimize its project portfolio: The company seeks to selectively explore opportunities of undertaking projects on hybrid annuity model (HAM) basis by evaluating the investments required and selecting projects where the risk and reward profile is favourable. For projects where it is not pre-qualified to bid independently, it may also enter into strategic alliances and joint ventures with other developers.

Diversify beyond projects in the roads and highways sector by leveraging existing capabilities: The company believes that, due to the increasing levels of the Government's focus and investment in infrastructure in India, certain segments such as irrigation, airport runways, waterways and development of smart cities provide the company with exciting opportunities to further develop its business and achieve higher profitability. Its public sector clients include NHAI, PWD, MES and Jaipur Development Authority.

Risk Factors

If delay in construction of projects: 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 its cash flows, business, results of operations and financial condition.

The company requires furnishing financial and performance bank guarantees as part of its business: The Company is required to furnish financial and performance bank guarantees as part of its business. Its inability to arrange such guarantees or the invocation of such guarantees may adversely affect its cash flows and financial condition.

If fails to complete its projects in a timely manner: The company is engaged in third-party contractors and sub-contractors to perform parts of its contract or provide services or manpower. If the company fails to complete its projects in a timely manner and operate, maintain and expand its roads and highway projects, is subject to performance of its contractors.

Business is dependent on a few customers: 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 projects.

A significant part of its business transactions are with governmental or government-funded entities or Agencies: Change in Central government and its policy like that in FY 2015 can affect the overall tendering process and order book and execution. Lot of contracts that were tendered out got cancelled in FY 2015. The Union government stopped build-operate-transfer (BOT) mode of tendering orders.

Peer comparison

Company name	Total Operating Income	PAT	EPS	P/E	P/BV	BV	FV	CMP	MCAP
Sadbhav Engg.	3605.37	210.32	12.26	32.05	7.13	55.11	1.00	392.95	6741.87
Ashoka Buildcon	2370.41	211.48	11.30	19.49	2.47	89.32	5.00	220.20	4121.02
J Kumar Infra	1503.86	108.05	13.88	23.73	1.79	183.57	5.00	329.30	2491.67
KNR Construct.	1789.38	244.78	8.20	35.88	5.08	57.88	2.00	294.25	4137.66
PNC Infratech	1616.62	117.70	4.57	36.04	2.89	56.95	2.00	164.60	4222.63
Dilip Buildcon	6938.24	598.71	26.08	36.69	7.61	125.68	10.00	956.65	13084.08
HG infra Engineering	1134.68	58.56	8.98	30.05	3.29	82.01	10.00	270	1759.62

* Financials are annualised FY18

** Peer companies financials are based on TTM

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 270, the stock is priced at pre issue P/E of 24.93x on its annualised FY18 EPS of Rs. 10.83. Post issue, the stock is priced at a P/E of 30.05 x on its EPS of Rs. 8.98. Looking at the P/B ratio at Rs. 270 the stock is priced at P/B ratio of 7.11x on the pre issue book value of Rs.37.95 and on the post issue book value of Rs. 82.01 the P/B comes out to 3.29x.

On the lower end of the price band of Rs.263 the stock is priced at pre issue P/E of 24.28x on its annualised FY18 EPS of Rs. 10.83. Post issue, the stock is priced at a P/E of 29.27x on its EPS of Rs. 8.98. Looking at the P/B ratio at Rs. 263, the stock is priced at P/B ratio of 6.93x on the pre issue book value of Rs. 37.95 and on the post issue book value of Rs. 82.01 , the P/B comes out to 3.21x.

Industry overview

India is the seventh largest economy in the world with nominal GDP of USD 2.26 trillion and third in terms of purchasing power parity as per 2016 estimates. India is the second most populous country in the world and is expected to see its population grow at the rate of 1.14% over the next five years. The urban population as a percentage of India's total population is estimated to increase from the current 32.8%, in 2017 to 35% by 2020, thereby increasing the number of people that access premium facilities. The infrastructure industry includes among others, roads, power, railways, urban infrastructure and irrigation. The size and magnitude of major infrastructure development projects in India has been able to attract substantial capital investment. The government has also introduced significant policy reforms to augment FDI, to further boost investment and enhance infrastructure. The reformative policies of the Indian government have resulted in total FDI inflows of approximately \$9.8 billion in construction activities in infrastructure from April 2000 to March 2017 as per data provided by the Department of Industrial Policy and Promotion ("DIPP"). The road sector is one of the key contributors to overall investment in the infrastructure industry.

Outlook

H.G. Infra Engineering Ltd has higher presence in western and northern India. As of November 30, 2017, projects in Maharashtra and Rajasthan contributed 51.13% and 44.59% of order book while the rest is contributed by Uttar Pradesh, Haryana, Uttarakhand and Arunachal Pradesh. Also, the company obtains most of its projects from the government and hence the current infrastructure thrust by government is expected to support orders for the company. On the revenue front, the company has been able to grow its revenue at a faster pace than its peers.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	February 26, 2018
Bid/Offer Closing Date	February 28, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	March 06, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	March 07, 2018
Credit of Equity Shares to depository accounts of Allottees	March 08, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	March 09, 2018

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	567.34	1,054.89	740.88
management fees			
Total expenditure	487.51	934.72	662.76
Operating Profit	79.84	120.18	78.13
OPM%	14.07	11.39	10.55
Other Income	2.18	3.69	2.40
PBDIT	82.02	123.86	80.53
Depreciation	21.72	25.60	18.34
PBIT	60.30	98.26	62.19
Finance Cost	15.20	19.27	15.99
PBT	45.10	78.99	46.20
Tax	15.83	29.70	16.02
Profit After Tax	29.28	49.30	30.18

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-17	As on 31-Mar-17	As on 31-Mar-16
Non-current assets			
Tangible assets	307.35	204.13	116.09
Intangible assets	0.41	0.25	0.08
Capital work-in-progress	34.84	0.69	4.83
Deferred Tax Assets (Net)	2.18	2.01	0.82
long term loans and advances	30.46	18.09	19.19
Other Non-Current Assets	15.15	6.07	7.20
Total non-current assets	390.38	231.23	148.22
Current assets			
Inventories	64.30	49.20	43.53
Trade receivables	82.69	112.78	92.66
Cash and bank balances	3.39	17.03	4.35
short term loans and advances	112.81	99.16	68.45
Other current assets	181.85	60.94	41.05
Total current assets	445.04	339.11	250.04
Total Assets	835.42	570.34	398.26
Non-current liabilities			
Long ter borrowings	113.01	63.48	28.45
Other Long term Liabilities	37.82	29.54	8.85
Long term Provisions	0.98	0.75	0.57
Total non-current liabilities	151.81	93.77	37.86
Current liabilities			
Short term borrowings	142.82	93.29	58.99
Trade Payables	121.22	74.49	51.23
Other current liabilities	201.47	126.70	127.19
short term provisions	12.94	6.21	0.45
Total current liabilities	478.45	300.69	237.85
Total	630.26	394.45	275.71
NET Worth	205.17	175.89	122.55
Net worth represented by:			
Share capital	54.06	18.02	18.02
Reserve and surplus	151.11	157.87	104.53
Net Worth	205.17	175.89	122.55

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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