



H.G. INFRA  
ENGINEERING LIMITED



# INVESTING IN SUSTAINABILITY

STRENGTHENING THE COMPANY THROUGH SUSTAINABLE  
PROCESSES, PRACTICES, INVESTMENTS AND CULTURE

ANNUAL REPORT 2017-18

#### FORWARD-LOOKING STATEMENT

IN THIS ANNUAL REPORT, WE HAVE DISCLOSED FORWARD-LOOKING INFORMATION TO ENABLE INVESTORS TO COMPREHEND OUR PROSPECTS AND TAKE INFORMED INVESTMENT DECISIONS. THIS REPORT AND OTHER STATEMENTS - WRITTEN AND ORAL - THAT WE PERIODICALLY MAKE, CONTAIN FORWARD-LOOKING STATEMENTS THAT SET OUT ANTICIPATED RESULTS BASED ON THE MANAGEMENT'S PLANS AND ASSUMPTIONS. WE HAVE TRIED WHEREVER POSSIBLE TO IDENTIFY

SUCH STATEMENTS BY USING WORDS SUCH AS 'ANTICIPATES', 'ESTIMATES', 'EXPECTS', 'PROJECTS', 'INTENDS', 'PLANS', 'BELIEVES' AND WORDS OF SIMILAR SUBSTANCE IN CONNECTION WITH ANY DISCUSSION OF FUTURE PERFORMANCE. WE CANNOT GUARANTEE THAT THESE FORWARD-LOOKING STATEMENTS WILL BE REALISED, ALTHOUGH WE BELIEVE WE HAVE BEEN PRUDENT IN OUR ASSUMPTIONS. THE ACHIEVEMENT OF RESULTS IS SUBJECT TO RISKS, UNCERTAINTIES AND EVEN INACCURATE ASSUMPTIONS. SHOULD KNOWN OR

UNKNOWN RISKS OR UNCERTAINTIES MATERIALISE, OR SHOULD UNDERLYING ASSUMPTIONS PROVE INACCURATE, ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE ANTICIPATED, ESTIMATED OR PROJECTED. READERS SHOULD BEAR THIS IN MIND. WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

15<sup>+</sup>

Number of years' track record in project execution

1,200<sup>+</sup>

Equipment bank  
(Number of items)

29

Projects under execution - 22 roads & highways (as on 31st March, 2018)

~2,900

Qualified and experienced employees

Performance of HG Infra Engineering Ltd. in numbers

1,393

Revenues (₹ in Cr),  
FY2017-18

208

EBITDA (₹ in Cr),  
FY2017-18

14.9

EBITDA margin  
(%), FY2017-18

84

PAT (₹ in Cr),  
FY2017-18

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6

States where we  
have executed  
projects

4,600<sup>+</sup>

Order book (₹ in Cr)  
(unexecuted as on 31st  
March 2018)

6.1

PAT margin (%),  
FY2017-18

1,900<sup>+</sup>

Market capitalisation  
(₹ in Cr),  
31st March 2018

The Indian road building sector is at an inflection point. The sector addresses its largest ever road building opportunity from 2018 to 2022.

This opportunity is possibly one of the largest road building opportunities in the world today.

At H.G. Infra Engineering Limited, we are attractively placed to address this unprecedented reality.

Through a governance foundation, sizable order book, experienced management, efficient cost structure and an established culture of execution excellence.

*Strengthening business sustainability.*

NOTE: THE COMPANY H.G. INFRA ENGINEERING LIMITED HAS BEEN REFERRED TO AS H.G. INFRA IN THIS REPORT FOR REASONS OF BREVITY.



# 8 THINGS YOU NEED TO KNOW ABOUT H.G. INFRA ENGINEERING LIMITED

## 01 Background

H.G. Infra Engineering Limited (HGIEL) is primarily engaged in the construction of infrastructure projects like highways, roads and bridges. Over the years, the Company has evolved into one of the leading road infrastructure development companies in India. The Company also executes civil construction projects like extension and grading of runways, railways and land development. The Company diversified into water pipeline projects in the last few years, strengthening its positioning as a Company dedicated to the creation of robust national infrastructure.

## 02 Promoters

The Company was incorporated in 2003 by Mr. Hodal Singh, possessing more than 40 years of experience in the construction sector. H.G. Infra Engineering Limited is presently being stewarded by Harendra Singh Choudhary, son of Mr. Hodal Singh, possessing about 24 years of experience in the infrastructure development sector.

## 03 Presence

The Company enjoys a presence in six Indian states - Rajasthan, Haryana, Uttar Pradesh, Maharashtra, Uttarakhand and Arunachal Pradesh. Of the 29 projects under execution as on 31st March 2018, 19 are in Rajasthan, seven are in

Maharashtra and the rest in Haryana, Andhra Pradesh, Uttar Pradesh and Uttarakhand.

## 04 Credentials

The Company addresses projects from NHAI and MoRTH as well as private players like Tata Projects and IRB. It is pre-qualified to bid independently on an annual basis for EPC bids by NHAI and MoRTH for contract values up to ₹1,120 cr based on its technical and financial capacity as on 31st March 2018. The Company is pre-qualified to the extent of Hybrid Annual Model projects of ₹1,680 cr, The Company is also registered as grade AA Class contractor with PWD, Rajasthan, and SS Category with Military Engineering Services (MES).

## 05 Certifications and Awards

- Certified for Quality Management System Certificate ISO 9001:2015
- Certified for Health & Safety Management System Certificate OHSAS 18001:2007
- Certified for Environmental Management System Certificate ISO 14001:2004
- Letter of appreciation in 2012 from L&T for being the most quality consciousness sub-contractor
- Received bonus from PWD for the early completion of widening and strengthening of NH-96 Faizabad-Allahabad Road in Uttar Pradesh

## 06 Equipment ownership

The Company reinforced its business model through the proprietary ownership of construction equipment. The Company had invested base of ~₹490 cr in owned assets as on 31st March 2018. Nearly ₹370 cr worth of equipments have been purchased in the last 2 years. The fleet of modern construction equipment (1,275 items) comprised crushers, compactors, graders, loaders, pavers, mixers, dumpers, excavators, rollers, sprayers, compressors and tractors.

## 07 Our people

The Company comprised 2,894 employees as on 31st March 2018. The proportion of skilled and high-skilled employees accounted for 89% of all employees at the close of 2017-18. The Company added 1,397 employees during the year under review. The number of employees have increased 3 times in the last 2 years (from ~1,000 as on 31st March 2016).

## 08 Order book

As of 31st March 2018, the Company had an order book of ₹4,607 cr (~3.3x FY18 revenues), comprising 29 projects (22 in the roads and highways sector). Nearly 75% of the order book comprised government companies. Nearly 85% of the order book comprised projects in Maharashtra and Rajasthan.

## HOW WE HAVE GROWN OVER THE YEARS

### CY 2003 - 08

- Incorporated in 2003
- Executed first sub-contract work of embankment construction
- Commenced construction of a portion of the Yamuna Expressway – ~₹129 cr

### CY 2010 - 14

- Four-laning of 49 km on the Jaipur-Tonk-Deoli section on NH-12 – ~₹362.02 cr

- Four-laning of the Warora - Bamni section in Maharashtra for ~₹260 cr

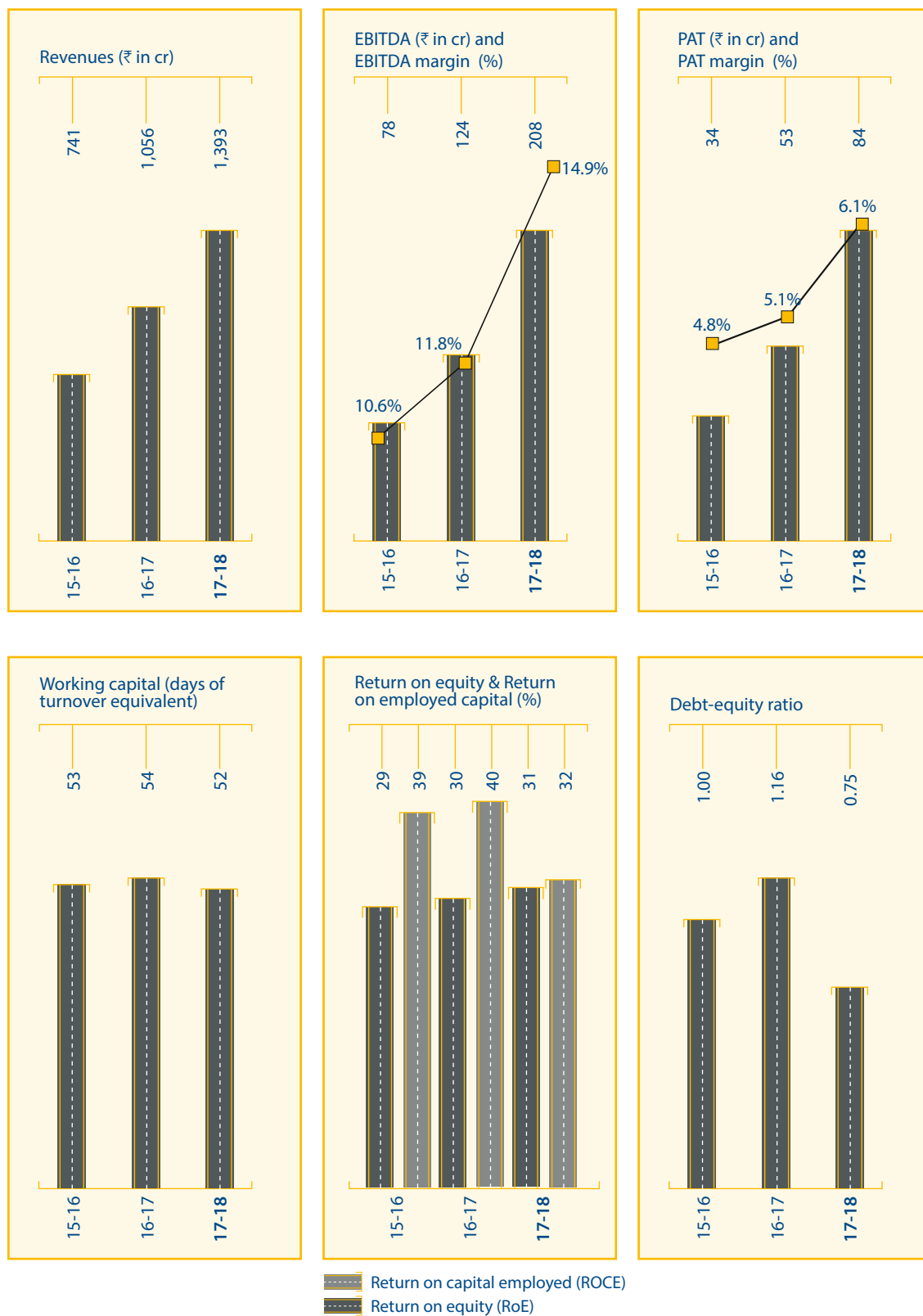
### CY 2015 - 16

- Construction of four laning of NH-65 on the Kaithal- Rajasthan border for ~₹421 cr
- Executed second renewal coat on the pavement of six-lane Jaipur-₹145.11 Cr
- Two construction projects from NHAI for ~₹400 cr

### CY 2017 - 18

- Seven construction projects in Maharashtra by MoRTH for ~₹1,900 cr
- Won first Hybrid Annuity model project in Haryana for ~₹606 cr
- The Company got listed on National Stock Exchange and Bombay Stock Exchange

## OUR PERFORMANCE OVER THE YEARS



(IPO proceeds are excluded from the ROCE & RoE for FY18)



#### CASE STUDY-01

### INVESTING IN BUSINESS SUSTAINABILITY BY EMBRACING CHALLENGES

WHEN H.G. infra embarked on a challenging project for Jaypee Associates on the Yamuna Expressway on 2008-09, a number of observers felt that the Company had over-extended itself.

The challenges were daunting.

The Company had never worked on an expressway before. This was the largest project in the Company's existence. This was the first time the Company was stepping out of Rajasthan. The project needed to be delivered with speed.

H.G. infra responded with speed and sensitivity. The Company invested in people, equipment and processes. Project control was strengthened.

The Company completed the 16.93 km project on schedule.

The reward? The customer increased the scope of the Company's project from ₹77 cr to ₹130 cr.



#### CASE STUDY-02

### INVESTING IN BUSINESS SUSTAINABILITY THROUGH DEPENDABILITY

IN 2010, when H.G. infra was awarded a 63 km road building project between Jaipur and Deoli in Rajasthan by IRB, industry observers sat up and took notice. The first four-laning project would test the Company. The bituminous nature of the project would take time. There was every possibility that the timeline would be missed.

H.G. infra responded with a distinctive spirit. Sub-teams were

created. A day-by-schedule was planned. Deviations from the plan were highlighted for immediate correction.

The result is that the Company completed the project on schedule.

The customer was so delighted that it raised the project allocation size of ₹257 cr to ₹364 cr.

Strengthening the Company's recall as a dependable partner.



#### CASE STUDY-03

### INVESTING IN BUSINESS SUSTAINABILITY THROUGH ENVIRONMENT RESPONSIBILITY

WHEN H.G. infra was awarded the 9km Agra Ring Road Project skirting the iconic Taj Mahal, the project was anything but ordinary.

For one, the Agra Development Authority project warranted the creation of an elevated roadway. Besides, the Company was required to take a number of environment-respecting precautions and make extensive provisions.

Besides, the Company had never worked on a project of this

nature. However, it responded with safeguards, investments and protocols.

The ₹306 cr project was completed on schedule.

The client was pleased not just with the timely delivery but the fact that the vendor (H.G. infra) had responded with corresponding responsibility and sensitivity that resulted in complete community acceptance.

#### CHAIRMAN'S OVERVIEW

THE COMPANY EXPECTS TO OUTPERFORM THE 20-25% ANNUAL GROWTH OF INDIA'S ROAD BUILDING SECTOR WITH PROJECTED ANNUAL REVENUE GROWTH IN EXCESS OF 30%



I AM PLEASED TO PRESENT THE FIRST ANNUAL REPORT OF THE COMPANY FOLLOWING ITS IPO IN 2017-18.

The Company reported its best-ever results during the financial year under review.

Revenues increased 32% to ₹1,393 cr, EBITDA strengthened 68% to ₹208 cr and profit after tax increased 58% to ₹840 cr. The Company reported profitable growth; besides, the Company reported an increase in EBITDA margin by 310 bps to 14.9% and a growth in Return on Equity by 100 bps to 31%, indicating a growing competitiveness.

#### Sectoral overview

The long-term optimism at H.G. infra is largely derived from an unprecedented transformation in India's road building sector across the last few years.

The Indian government has made road building central to the growth of the country's infrastructure. This is being increasingly reflected in the announcement of the largest road building program in the history of the nation, a responsive industry-enabling environment and a focus on



project completion over mere project announcement. The result of these positive developments is that India's road building sector is faced with the biggest order book in its history, translating into multi-year revenue visibility. As India's road building sector grows faster than ever, a select group of serious long-term players are positioned to grow even faster, capitalising on their scalable foundation leading to business sustainability.

#### Inflection point at H.G. infra

At H.G. infra, we invested in our business across the last few years to emerge opportunity-ready.

We developed a strategic clarity that it would be better to report sustainable growth over lumpy and erratic performance.

We balanced our role as direct contractors and indirect sub-contractors with the objective to maximise our capacity utilisation and related profitability.

We selected to work with large and respected clients, strengthening our cash flows and timely payments

We selected to specialise in Rajasthan where we enjoyed economies of mobilisation, project management and cost management before we broadened our presence across other states.

We invested more than ₹370 cr over last two years in construction equipment ownership, making it possible to accelerate project progress and moderate costs.

We created a number of strategic business units within the Company, responsible for the business sustainability of their respective profit centres.

We recruited experienced personnel, trained them and oriented them around the H.G. infra way of doing things.

We invested in SAP (to be live soon) that will make it possible to enhance planning accuracy, control concurrent projects management and take informed decisions.

We launched an IPO to mobilise resources that would help us with our high growth vision, while keeping moderate debt on our books.

#### Governance

One of the most decisive things that H.G. infra embarked on in the last few years was the strengthening of its governance foundation.

At H.G. infra, we believe that a sound governance framework graduates companies from one level to another, strengthening business sustainability. At our Company, we invested in a different way of doing business

with the objective to enhance process predictability and credibility.

H.G. infra appointed one of the Big Four accounting firms as auditors, strengthened its Board of Directors, invested in processes and protocols that replaced ad hoc and arbitrary management, created an ethical framework that extended across the organisation and strengthened engagement with the investing community.

We believe that this framework will empower H.G. infra to outperform the sectoral growth average and, in doing so, address the diverse needs of stakeholders – employees, vendors, customers, shareholders and the community.

#### Outlook

The optimism in our business is derived from the ambitious road building programme announced by the Indian government. The Bharatmala project is possibly the largest single infrastructure project in the country's existence. The ₹5,35,000 cr project entails the building of more than 35000 km of highways and roads across the country by 2022. The historic project provides extensive opportunities for competent road building companies in India.

H.G. infra is one of those companies to be attractively placed to capitalise on the

sectoral revival. The Company possessed an unexecuted order book of ₹4,607 cr as on 31st March 2018, the largest in its existence. The order book has grown 3x in the last three years. The Company possesses robust revenue visibility around attractive profitability. Besides, we intend to bid directly for more projects or engage in profitable sub-contracting for other road building companies.

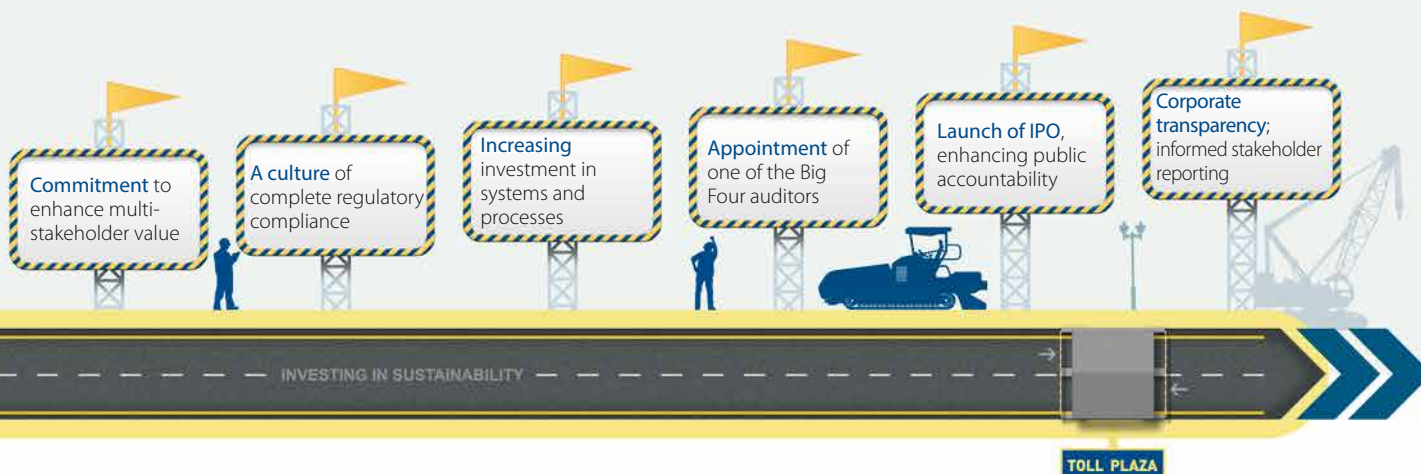
In view of these realities, the Company expects to outperform the 20-25% annual growth of India's road building with projected annual revenue growth in excess of 30% around mid-teen EBITDA margins, ensuring profitable and sustainable growth across the foreseeable future.

#### Conclusion

At H.G. infra, we commit to address our prospects with a culture of urgency and our projects with hands-on engagement. In doing so, we are optimistic of enhancing value for our growing family of stakeholders.

**Harendra Singh**  
Managing Director

## OUR GOVERNANCE FOUNDATION



# HOW WE HAVE SELECTED TO DO BUSINESS: THE H.G. INFRA WAY

## **Sectoral landscape**

**National priority:** There is a growing recognition that infrastructure investment will graduate India into the next league, strengthening economic growth and prosperity

**Road building focus:** Within infrastructure, there is a significant focus on road building as a national driver. This is reflected in unprecedented investments being made in road building projects.

**Larger projects:** The size of road building projects is getting larger. What used to be a project ticket size of a few hundred crores a few years ago has trebled, warranting larger investments by contracting companies (in people, equipment and Balance Sheet).

**Timeliness focus:** There is a stronger focus within India on not just project announcement but project progress/completion – with stipulated timelines and corresponding reward/penalties for deviations from agreed timelines.

**Sectoral attrition:** The road building sector has been marked by a number of companies with stressed Balance Sheets unable to qualify for attractive projects, creating an unprecedented opportunity for mid-sized companies like H.G. infra to address the sectoral gap.

## **H.G. infra's responsiveness**

**Business clarity:** At H.G. infra, we believe that we are in a business where not only is the quality important but also the speed with which we deliver. This puts a premium on our ability to complete projects on or before schedule

**Project selection:** The Company will work on projects contracted directly from the government or sub-contracted from road building companies based on their respective profitability. Revenues derived from direct contracts given by the government was 75% in FY18. These projects will be selected on the basis of their size, complexity, margins, funding and the credibility of the customer.

**Segment presence:** The Company largely addressed prospects from the road building industry in 2017-18 (90% of revenues). The Company expects to build a critical mass of road-building projects before extending into contiguous construction spaces (aviation, rail, water management and metro rail).

**Pre-qualification:** The Company will strengthen its pre-qualification credentials through timely projects completion. The Company was pre-qualified to bid for ₹1,680 cr of HAM projects and ₹1,120 cr of EPC contracts by the close of 2017-18.

**EPC focus:** The Company will continue to focus on the execution of EPC projects in the roads and highways sector

**HAM focus:** The Company would continue to look at HAM projects selectively. At any point, the proportion of HAM projects in the order book is not expected to exceed 25%.

**Terrain presence:** The Company will follow a clusterised approach, selecting to enter states with large long-term road building potential, followed by a deepening presence in those states, leveraging economies of experience, mobilisation and co-ordination. The Company's presence was spread across 6 states in 2017-18. The Company intends to explore prospects deeper in Gujarat, Punjab and Uttar Pradesh.

**Execution excellence:** The Company is singularly focused on a culture of excellence, marked by responsible bidding, comprehensive technical surveys and feasibility studies, timely mobilisation, scheduled construction, optimum quality reflecting in lower maintenance and repairs (resulting in higher operation and maintenance margins) leading to timely milestone-linked receivables from customers, creating a virtuous cycle of cash flows and profitability.

**Holistic management:** The ability to complete projects on schedule is derived from a holistic management of business variables – proprietary equipment ownership, clusterised geographic presence, adequate people recruitment, training and delegation as well investment in controls and processes.

**Balance of interests:** The Company is managed hands-on by the promoters with adequate delegation. The creation of strategic business units, treated as independent profit centres, has helped enhance ownership, responsibility and accountability, creating the next line of business leaders.

**Equipment ownership:** The Company invested around ₹370 cr in the proprietary ownership of construction equipment with the objective to accelerate project progress, rotate equipment more efficiently across construction sites and moderate rentals.

**Debt perspective:** The Company has selected to work with modest capital, re-investing accruals in business growth. The Company expects to repay debt through FY19, strengthening its gearing. The Company will aim to maintain a healthy debt-equity ratio, and will mobilise debt only to fund growth with attractive payback.

**Governance:** The Company selected to invest consciously in governance – whether it was through the enunciation of an ethical framework applicable to all employees, strengthening the Board of Directors, appointment of new auditors, strengthening processes, investing in cutting-edge information technology (SAP) and increasing operational transparency with stakeholders.

**Value-creation:** The Company is focused on enhancing stakeholder value, strengthening earnings in the hands of shareholders.



## HOW WE HAVE STRENGTHENED OUR BUSINESS OVER THE YEARS

### Employees

1,070 > 2,894  
Number, 2016      Number, 2018

The Company strengthened its knowledge capital, empowering it to address more and larger projects



### Equipment ownership

116 > 490  
₹ cr, 31st March 2016      ₹ cr, 31st March 2018

The Company invested in the proprietary ownership of construction equipment, strengthening project management



### Number of customers

26 > 30  
As on 31 March 2016      As on 31 March 2018

The Company addressed a larger number of customers, strengthening related economies



### Concurrent projects addressed (₹200 cr+)

2 > 13  
As on 31 March 2016      As on 31 March 2018

The Company addressed a larger number of projects, enhancing operational scale, revenues and profits



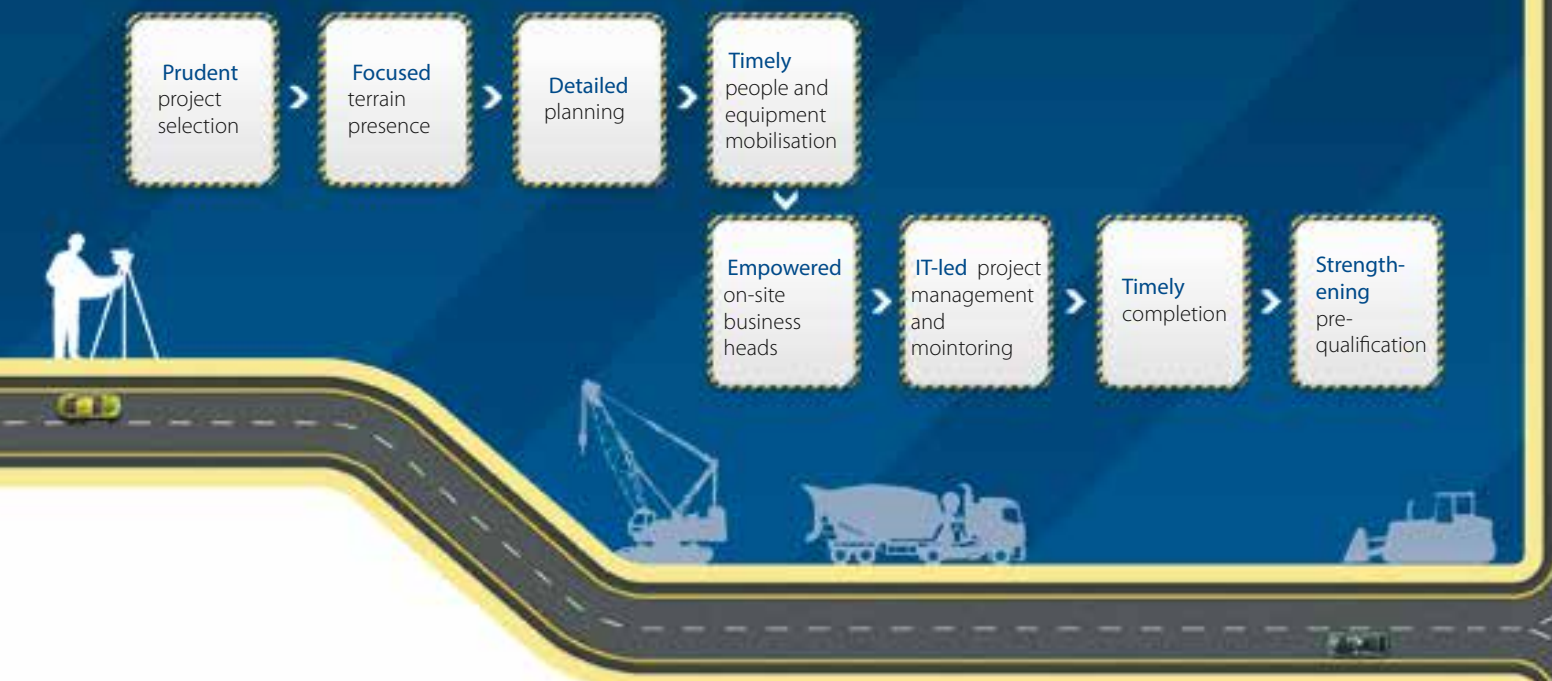
### EPC pre-qualification capability

300 > 1,120  
₹ cr, 31 March 2016      ₹ cr, 31 March 2018

The Company strengthened its prequalification credentials, making it possible to bid for progressively larger projects



# H.G. INFRA'S CULTURE OF URGENCY



## MANAGEMENT DISCUSSION AND ANALYSIS

### Global economic overview

In 2017, a decade after the global economy collapsed, a revival manifested: ongoing Euro-zone growth, modest growth in Japan, late revival in China and improving realities in Russia and Brazil. The result was an estimated 3.7% global economic growth in 2017, some 60 bps higher than the previous year. Global growth forecasts for 2018 and 2019 were revised upward by 20 bps to 3.9%. (Source: WEO, IMF)

### Indian economic overview

The Indian economy reported 6.7% growth in 2017-18, rising to 7.7% in the last quarter. The year under review was marked by structural reforms by the Government. After remaining in negative territory for a couple of years, export growth rebounded in 2016-17 and strengthened in 2017-18; foreign exchange reserves rose to US\$ 426 billion as on April 2018. Further, World Bank projects India's economic growth to accelerate to 7.3% in

2018-19 and 7.5% in 2019-20. (Source: CSO, economic survey 2017-18, IMF, World Bank)

### Indian infrastructure sector overview

India is arguably the most attractive infrastructure investment destination in the world given the government's focus, increased outlays and order announcement for infrastructure companies.

**There is a basis for the increase in infrastructure spending in India: as on 31st March 2017, India's spending on this sector was 8% of GDP compared with China's spending of nearly 11% of its GDP on infrastructure (China's GDP being approximately five times India's GDP). This indicates the latent potential of the sector with the prospect of generating substantial year-on-year growth.**

India's large infrastructure appetite indicates an infrastructure spending potential

of ~ US\$1.5 trillion in 10 years starting FY19. That related activity is beginning is evident: the sector witnessed 91 M&A deals worth US\$5.4 billion in 2017. Correspondingly, the total capital outlay of the country's infrastructure sector increased 20.8% to ₹5.97 lakh cr during FY2018-19 from an estimated ₹4.94 lakh cr in FY2017-18, which reflects an unmistakable road building focus of the Indian Government. (Source: IBEF)

### Roads and roadways

Roads and highways represent India's lifeline, the basis of its global competitiveness across sectors. India accounts for the second largest road network in the world (5.6 million kilometres). However, the proportion of highways in the country's road network is considerably lower than the share of cargo carried through it, warranting an immediate correction.

During 2017-18, NHAI awarded projects spanning 7,397 kilometres, while MoRTH

awarded projects spanning 8,652 kilometres and NHIDCL awarded projects spanning 591 kilometres. As of April 2018, there were 1,529 PPP projects in India, of which 740 were related to roads, indicating the seriousness of the government's intent. During FY2017-18, 9,829 kilometres of national highways were constructed, a 20% growth over FY2016-17. The pace of highway construction touched 27 kilometres per day during FY2017-18, a growth of 20% over 22.5 kilometres per day in FY2016-17. The aggregate expenditure on new road projects in the last five years amounted to ₹6.55 lakh cr.

### Outlook

India's national highway network is expected to cover 50,000 kilometres by 2019, with ~20,000 kilometres of works scheduled for completion over the next couple of years, the highest increment in that period of time. The Indian Government plans to develop a total of