

Profiting From **Discipline**

Annual Report 2018-19

H.G. INFRA ENGINEERING LIMITED

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.

Big numbers at H.G. Infra Engineering Limited



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Profiting from Discipline

In a challenging business marked by a number of external variables, increased profits are derived from the capacity to look within.

This capacity is defined by the ability to be cautious in project selection, clarity in the margins required from each project, comprehensive study of project requirements, responsible bidding, better planning, and competent resource deployment.

At H.G. Infra Engineering Limited, the cumulative impact of these various initiatives came down to three words.

Profiting from Discipline.

We continued to profit from our operating discipline in 2018-19, growing faster than the sectoral average



In the first annual report of our Company last year following our initial public offer, we had indicated an annual revenue growth of 30%, which we later revised upward. I am pleased to report that we achieved our guidance with ₹2,010 crore revenue, a 44% growth in 2018-19. The Company reported profitable growth for the year with percentage growth in bottom-line of 47% being higher than the percentage increase in our topline. This was achieved through our established culture of operational discipline, our competitiveness in an exciting segment and our desire to grow into one of the

most successful companies in India's infrastructure sector.

At HG Infra, we are attractively placed to carve out larger projects. In the last five years, we strengthened our project qualification eligibility from ₹1,120 crore to ₹1,750 crore (as on March 31, 2019). Besides, our net worth strengthened from ₹541 crore to ₹659 crore.

To most it will appear as if our 2018-19 performance was derived from smooth sailing at a time of unprecedented sectoral growth. I must apprise our stakeholders that the reality was far more challenging than what may appear

- for some good reasons.

One, the increase in concurrent multi-locational projects and larger size projects presented us with the challenge to manage this growth in a controlled manner. **Two**, we needed to complete projects on schedule, generate cash flows and reinvest in the business with the objective of enhancing multi-year business sustainability. **Three**, there was a challenge of growing our order book that would sustain our prospective growth and profitability.

During the course of the year, the Company practiced what it had always professed – the need to be disciplined across market cycles, contract sizes and projects. As a result of our bidding discipline that we demonstrated during the year under review, order inflows were slow during the initial part of the financial year under review. However, we were convinced that what we were doing was absolutely right from the perspective of long-term business success and sustainability.

I am happy to communicate that our discipline was vindicated. The Company received ₹3,891 crore orders during the year at its desired IRR, strengthening its overall order book from ₹4,607 crore as on March 31, 2018 to ₹6,222 crore as on March 31, 2019. We ended the financial year under review with the integrity of our Balance Sheet intact, our receivables cycle virtually unchanged and our gearing at 0.57 (compared with 0.75 in the previous financial year), which indicate that the Company is attractively placed to generate sustainable growth from this point onwards.

At HG Infra, we are engaged in building

more than just roads, highways and infrastructure projects. We are engaged in building an institution across the long-term. At the core of our commitment lies the strength of our governance process. At our company, the word 'governance' carries an over-riding connotation: the position and respect to be completely trusted by all stakeholders at all times.

I am pleased to communicate that the Company deepened its governance commitment during the course of the year under review. This commitment was most visible in the strengthening of the Board of Directors and people competencies. The Company strengthened its Board through the appointment of a retired member of Indian Administrative Service. The execution team was also strengthened over the last few years with professionals joining across teams and functions including a new COO. Besides, the Company added over 670 employees through the year, connecting order book throughput at one level with an enhanced ground-level ability to deliver at the other. We believe that by plugging the various managerial and competence gaps, we are creating a well-rounded organization that is more attractively placed today to capitalize on sectoral opportunities than ever.

We reinforced our commitment to deliver projects on schedule through a sustained investment in cutting-edge technologies and equipment. The Company invested proactively in SAP,



the benefits of which were reflected during the last financial year. The SAP investment did not just help moderate costs; it also strengthened project control across 33 operating sites in seven States. Besides, the Company continued to invest in capital equipment, making it possible to reduce the external hiring of equipment (and related rentals), enhance equipment availability, rotate our equipment faster and complete projects on schedule.

Our discipline has been validated across the last number of years, making us one of the fastest growing medium-sized road building companies in India. We have grown at a CAGR of 39% over the last three years with profit growth of 52%. Our order book has grown 4x during the last four-year period. Our

order book at the close of 2018-19 provided a revenue visibility across 2-3 years.

To defray the risks that could possibly arise from an excessive dependence on the road sector, the Company extended into adjacent business spaces like aviation infrastructure and water supply projects.

Through this validated discipline, the Company expects to sustain its ongoing growth, enhancing respect across our business eco-system and increasing value in the hands of all those associated with our company.

Harendra Singh,
Chairman and Managing Director

At HG Infra, we profit from discipline by...

The widening acceptance that successful companies in a challenging sector are inevitably those that are consistently disciplined

The knowledge of which projects will enhance the Company's profitability – and which will not

The courage to walk away from bidding projects that do not match the Company's desired IRR benchmark

The capacity to grow the business while amortising fixed costs more effectively

The ability to deploy every employee and equipment productively across locations, time and projects

The readiness to invest in cutting-edge technologies that enhance real-time project awareness

The priority to monitor and control project deviations with speed and sensitivity

The capacity to sustain a culture of urgency that makes it possible to deliver challenging projects on schedule

Corporate overview

Background and promoters

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 & grading of runways, railways & land development as well as water pipeline projects.

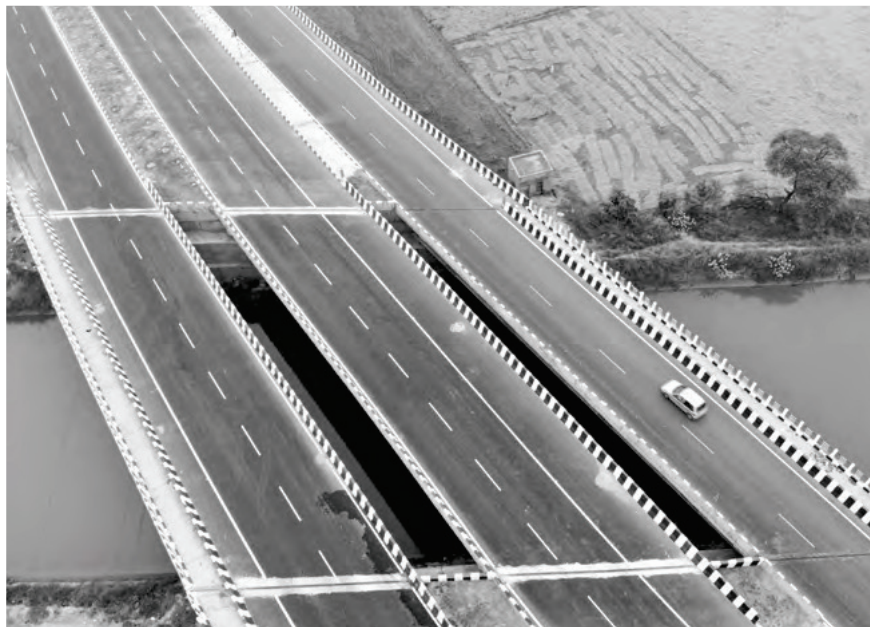
The Company (erstwhile known as H.G. Infra Engineering Private Limited) was incorporated in 2003 by Mr. Hodal Singh, possessing more than 40 years of experience in the construction sector. The Company is presently being stewarded by Harendra Singh who possesses about 20 years of experience in the infrastructure development sector.

Presence

The Company enjoys a strong presence in seven Indian States - Rajasthan, Haryana, Uttar Pradesh, Maharashtra, Goa, Uttarakhand and Arunachal Pradesh. Nearly 37% of its revenues were derived from Rajasthan and 30% from Haryana during the year under review.

Customers

The Company addresses projects from NHAI and MoRTH as well as private players like Tata Projects Limited 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 ₹1,750 crore based on its technical and financial capacity as on March 31, 2019. The Company is pre-qualified Hybrid Annual Model projects of ₹1,800 crore. The Company is also registered as grade AA Class contractor with PWD, Rajasthan, and SS Category with Military Engineering Services (MES).



Project: Four laning of Kaithal Rajasthan border section of NH-123/65 in Haryana

Project value: ₹401 crore

Status: Completed in FY2019.

Order book

As of March 31, 2019, the Company had an order book of ₹6,222 crore (~3.1x FY19 revenues) comprising 33 projects (31 in road & highway and one in water pipeline and runway construction each). Nearly 71% of the order book comprised government companies. Nearly 37% of the order book comprised projects in Rajasthan and Haryana.

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 the widening and strengthening of NH-96 Faizabad-Allahabad Road in Uttar Pradesh
- Pre-qualified to bid independently for bids by NHAI and MoRTH for contract values up to ₹1,750 crore

Our tangible strengths



Gross block (₹ crore)

2016-17

229

2017-18

490

2018-19

611

The Company's fleet of modern construction equipment comprised crushers, compactors, graders, loaders, pavers, mixers, dumpers, excavators, rollers, sprayers, compressors and tractors. The fleet of modern construction equipment increased to 1,802 in FY19 from 1,275 in FY18. The Company invested significantly over the years to create a strong equipment bank.

Drives
timely
deployment

Ensures
efficient
project
management

Control
on project
execution

Optimizes
margins



Manpower

2016-17

1,497

2017-18

2,894

2018-19

3,570

Employee expense as a % of revenue

2016-17

3.9%

2017-18

5.4%

2018-19

5.9%

The Company strengthened its employee base to man growing business requirements. The proportion of skilled and highly-skilled employees accounted for over 84% of all employees at the close of 2018-19.

The Company focused continuously on upskilling and training the team in line with the latest global trends in the sector.



Real time
project
monitoring

Control
on supply
chain

Inventory
control

Cost
optimization

The Company invested in cutting-edge technologies, which helped in enhancing process efficiency while saving time and costs. The Company has implemented SAP in FY19.

Our competence and credibility

The orders that we were awarded in 2018-19

Project: Hapur Moradabad - EPC project

State: Uttar Pradesh

Nature of work: Six-laning

Awarding authority: IRB

Value

₹1,172 crore

Project: SH-44 section of Delhi-Vadodara Green Field Alignment (NH-148N) – EPC project

State: Rajasthan

Nature of work: Eight-laning

Awarding authority: NHAI

Value

₹997 crore

Project: Narnaul Bypass-Ateli Mandi to Narnaul section of NH-11 – HAM Project

State: Haryana

Nature of work: Six-laning

Awarding authority: NHAI

Value

₹952 crore

Project: Rewari-Ateli Mandi section of NH-11 – HAM Project

State: Haryana

Nature of work: Four-laning

Awarding authority: NHAI

Value

₹580 crore

Project: Greenfield International Airport at MOPA

State: Goa

Nature of work: Runway, taxiway and apron

Awarding authority: Megawide Construction DMCC

Value

₹189 crore

Key EPC Projects under execution

Project: Maharashtra MoRTH Projects

State: Maharashtra

Nature of work:

Awarding authority: MoRTH

Value

₹1,905 crore

Project: Hapur Bypass to Moradabad - EPC Project

State: Uttar Pradesh

Nature of work: Six-laning

Awarding authority: IRB

Value

₹1,172 crore

Project: SH-44 section of Delhi-Vadodara Greenfield Alignment (NH-148N) – EPC project

State: Rajasthan

Nature of work: Eight-laning

Awarding authority: NHAI

Value

₹997 crore

Project: Gulabpura-Chittorgarh

State: Haryana

Nature of work: Six-laning

Awarding authority: IRB

Value

₹712 crore

Project: Chittorgarh-Udaipur

State: Rajasthan

Nature of work: Six-laning

Awarding authority: Tata Projects

Value

₹483 crore

Notable completed projects in 2018-19

Project: Kaithal Haryana NH-152
State: Haryana
Nature of work: Four-laning
Awarding authority: IRB

Value
₹401 crore

Project: Uncha-Nagla-Khanuawa-Roppas-Dholpur section of NH-123
State: Rajasthan
Nature of work: Widening, strengthening and two-laning,
Awarding authority: NHAI

Value
₹261 crore

Project: Sitarganj-Tanakpur section of NH-125
State: Uttarakhand
Nature of work: Two-laning
Awarding authority: NHAI

Value
₹243 crore

Project: Tonk –Sawai Madhopur section of NH-116
State: Rajasthan
Nature of work: Two-laning
Awarding authority: NHAI

Value
₹216 crore

Project: Manoharpur and Dausa on NH 11A
State: Rajasthan
Nature of work: Two-laning
Awarding authority: NHAI

Value
₹198 crore

HAM projects under execution

Project: Narnaul Bypass-Ateli Mandi to Narnaul section of NH-11 – HAM Project
State: Haryana
Nature of work: Six-laning
Awarding authority: NHAI

Value
₹952 crore

Project: Gurgaon-Soha (Pkg-II)
State: Haryana
Nature of work: Eight-laning
Awarding authority: NHAI

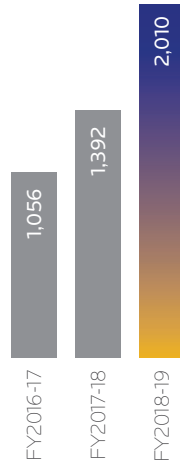
Value
₹606 crore

Project: Rewari-Ateli Mandi
State: Haryana
Nature of work: Four-laning
Awarding authority: NHAI

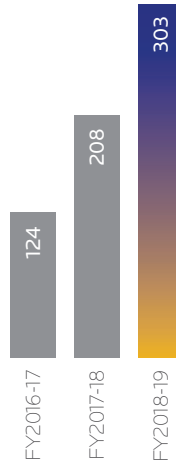
Value
₹580 crore

Our performance over the years

Revenues (₹ crore)



EBITDA (₹ crore)



EBITDA margin (%)

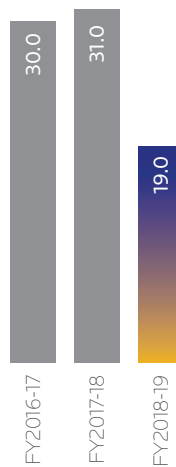


Working capital management (days)



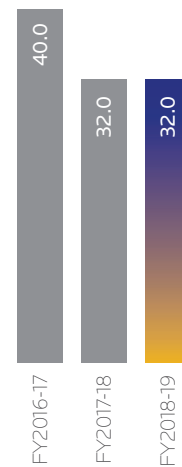
- Debtors days is calculated as average trade receivables / revenue from operations
- Inventory days is calculated as average inventory / cost of materials
- Creditors days is calculated as average trade payables / (cost of materials + contract & site expenses)

Return on net worth (%)



- Return on net worth is calculated as $PAT / \text{Networth} \times 100$
- IPO proceeds are excluded from RoNW for FY18

Return on employed capital (%)



- ROCE is calculated as $EBIT / (\text{Total Assets} - \text{Current Liabilities})$
- IPO proceeds were excluded from FY18