

Madhucon ProjectsRs203
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs7.5bn; US\$169m

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Result: Q4FY07

Comment: Ahead of estimates led by higher margins and lower than estimated tax rate

Last report: 29 January 2007 (Price Rs298; Recommendation: Outperformer)

Key valuation metrics

Year to March (Rs m)	Sales	chg yoy (%)	Net Profit	EPS (Rs)	chg yoy (%)	PER (x)*
2004	3,014	30.0	187	7.4	(2.2)	21.7
2005	3,063	1.6	162	5.9	(20.2)	27.3
2006	3,421	11.7	333	10.6	79.3	15.2
2007P	5,100	49.1	417	11.3	6.4	14.3
2008E	9,538	87.0	681	18.5	63.2	8.8
2009E	14,355	50.5	1,098	28.3	53.3	5.7

* Valuations adjusted for BOT valuation (Rs41.3/share)

Madhucon Projects Ltd (MPL) reported 4QFY07 results ahead of our estimates at Rs116mn led by higher than estimated operating margins and lower tax rate. The revenues grew by 53.9% yoy to Rs1.8bn mainly driven by a strong order backlog of Rs43.8bn as on 31st March 2007 (8.6x FY07 revenues). Operating margins improved by 250bps to 16.8% due to execution of higher margin irrigation and BOT orders coupled with some projects reaching the profit booking threshold during the quarter. Tax provisions increased sharply to Rs119mn as the company provided tax at 28.7% for the full year FY07 post withdrawal of section 80IA benefits for construction companies in Budget 2007. Consequently, net profit decreased by 24.5% yoy to Rs116mn in 4QFY07. We are not changing our FY08 and FY09 earnings estimates for MPL. The stock is currently trading at 8.8x FY08E and at 5.7x FY09E earnings on PER basis (net of BOT valuation of Rs41.3/share), which we believe is extremely attractive considering its strong order backlog and resultant visibility of strong earnings growth (+58%) over FY07-09. We maintain our Outperformer rating on the stock.

RESULT HIGHLIGHTS

- Revenues grew by 53.9% yoy during the quarter to Rs1.8bn driven by strong order book position of Rs43.8bn as on 31st March 2007 (8.6x FY07 revenues) and execution of the company's BOT projects during the quarter.

Order backlog continues to remain strong

(Rs m)	FY03	FY04	FY05	FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	FY07
Revenues	2,319	3,014	3,063	3,421	1,131	934	1,205	1,831	5,100
Order backlog	4,000	4,260	21,890	48,880	47,750	46,816	45,611	43,780	43,780
Order booking	3,919	3,274	20,693	30,411	-	-	-	-	-
Book-to-bill	1.7	1.4	7.1	14.3	14.0	13.7	13.3	12.8	8.6

Source: Company

- Operating margins improved by 250bps to 16.8% during the quarter as the company executed some high margin irrigation and BOT projects. Moreover, some projects reached the profit-booking threshold during the quarter, which also resulted in an increase in operating margins.

- Other income decreased by 32.5% yoy in 4QFY07 as the company utilized the cash on books for funding investments in BOT projects and capex.
- Interest expenses jumped from Rs0.7mn in 4QFY06 to Rs35mn in 4QFY07 due to higher bank guarantee charges incurred in relation with bids submitted during the quarter and also due to interest payments on Rs600mn of ECB borrowings made during the year.
- MPL had spent Rs700mn till date in FY07 on batching plants, excavators, etc. to increase its execution capabilities. As a result, depreciation increased by 26.9% yoy to Rs72mn during the quarter.
- Consequently, PBT increased by 43.7% yoy to Rs234mn during the quarter.
- Tax provisions jumped sharply to Rs119mn in the current quarter as against Rs10mn in 4QFY06 as MPL provided tax at the rate of 28.7% for full year FY07, due to the reversal of tax benefits for construction companies under section 80IA of the Income Tax Act, in Budget 2007.
- With the higher tax provisioning, net profit decreased by 24.5% yoy to Rs116mn during the quarter.

□ **MPL's Polavaram project worth Rs8.25bn cleared by Supreme Court**

MPL had two orders worth Rs8.25bn from the Polavaram Indira Sagar Irrigation project, which were delayed due to the client, i.e. AP State Irrigation Department having not received environmental clearances. However, the Supreme Court, in a recent judgment, has cleared irrigation projects which are not situated in forest land. Since MPL's both projects are situated in non-forest land, we expect work on the same to commence soon, once official communication from AP State Irrigation Department is received.

□ **BOT projects – progress on schedule with financial closures**

During the quarter, MPL announced financial closure of its Madurai – Tuticorin road BOT project, with which, the company's all 4 BOT projects have achieved financial closure. Construction work on the BOT projects has commenced and is likely to accelerate over the next 3-4 quarters. We have valued the entire BOT road portfolio at Rs41.3/share based on the NPV of the road projects equity cashflows.

Value of BOT – Rs41.3/share

(Rs m)	Project Type	Project cost	Gearing (x)	MPL stake (%)	MPL equity investment	Discounting rate (%)	Equity value	MPL Value	MPL Value (Rs/share)
Bharatpur Mahua (Jaipur expressway)	Toll based	3,008	2.00	74	616	16	537	397	10.8
Karur Dindigul (TN4)	Toll based	3,756	2.00	74	627	16	264	195	5.3
Madurai – Tuticorin	Toll based	8,324	1.50	51	1,894	16	905	462	12.5
Thanjavur – Trichy	Toll based	4,168	1.87	100	722	16	134	134	3.6
AP Housing	Real estate			100		15	336	336	9.1
Total value	-	19,256					2,176	1,524	41.3

□ **Maintain Outperformer**

We are not changing our earnings estimates for MPL for FY08 and FY09. MPL's strong order backlog of Rs43.8bn (8.6x FY07 revenues) would drive revenue growth of 68% CAGR over FY07-FY09 and an ensuing net profit growth of 62% CAGR over the same period. However, due to equity dilution, EPS CAGR would be lower at 58% over the same period. The stock is currently trading at 8.8x FY08E and 5.7x FY09E earnings on PER basis (net of BOT valuation of Rs41.3/share). Considering the robust order book position of Rs43.8bn, the resulting visibility on earnings and strong earning growth momentum over the next two years, we believe the stock is trading at extremely attractive valuations and maintain our Outperformer rating on the stock.

Quarterly results

Rs mn	1QFY06	2QFY06	3QFY06	4QFY06	FY06	1QFY07	2QFY07	3QFY07	4QFY07	FY07	FY08E
Net Sales	610	605	1,015	1,190	3,420	1,131	934	1,205	1,831	5,100	9,538
Total Expenses	533	520	868	1,020	2,941	984	785	1,037	1,524	4,331	8,164
EBITDA	78	85	147	169	479	147	149	168	307	770	1,374
<i>OPM (%)</i>	<i>12.7</i>	<i>14.1</i>	<i>14.5</i>	<i>14.2</i>	<i>14.0</i>	<i>13.0</i>	<i>15.9</i>	<i>13.9</i>	<i>16.8</i>	<i>15.1</i>	<i>14.4</i>
Other Income	3	3	7	51	64	58	40	22	35	166	105
Interest	0	1	4	0.7	6	29	26	23	35	112	133
Depreciation	36	39	39	57	171	74	33	59	72	239	319
PBT	44	48	111	163	366	103	130	108	234	585	1,028
Current Tax	10	16	36	10	71	12	18	10	119	168	346
<i>Tax Rate (%)</i>	<i>21.5</i>	<i>33.7</i>	<i>32.3</i>	<i>6.1</i>	<i>19.5</i>	<i>11.4</i>	<i>13.5</i>	<i>9.3</i>	<i>50.7</i>	<i>28.7</i>	<i>33.7</i>
PAT	35	32	74.9	153	295	91	113	98	116	417	681
Growth (yoy, %)											
Net Sales	(35.0)	(19.7)	41.5	82.8	11.8	85.2	54.3	18.7	53.9	49.1	87.0
EBITDA	(22.1)	(4.5)	49.0	69.3	23.7	89.5	74.3	14.2	81.1	60.7	78.5
PBT	(38.7)	(12.9)	78.5	140.6	42.4	132.9	170.4	(2.5)	43.7	59.8	75.6
PAT	(40.8)	(20.7)	48.3	220.5	81.8	162.8	252.5	30.6	(24.5)	41.7	63.2
EPS											
Equity	27.2	27.2	27.2	36.9	36.9	36.9	36.9	38.8	38.8	36.9	36.9
EPS	1.3	1.2	2.8	4.2	8.0	2.5	3.1	2.5	3.0	11.3	18.5
PER (x)	31.7	34.3	14.6	9.7	20.2	16.4	13.2	16.0	13.6	14.3	8.8

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2. Neutral: Within 0-10% to Index
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