

Madhucon Projects

 BSE code: 531497
 NSE code: MADHUCON

CMP: Rs 345
Target: Rs 393 ↑

BUY
Suman Memani

(91-22) 6612 4736

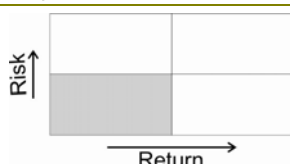
suman.memani@religare.in

Company data

Particulars	
Market cap (Rs bn / US\$ mn)	13.0/325.0
Outstanding equity shares (mn)	37.0
52-week high/low (Rs)	408/187
2-month average daily volume	42,946

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	5,100.5	7,312.4	13,300.0
Growth (%)	49.1	43.4	81.9
Adj net profit (Rs mn)	417.1	534.2	1,122.7
Growth (%)	25.4	28.1	110.2
FDEPS (Rs)	11.2	14.4	30.3
Growth (%)	25.4	28.1	110.2
P/E (x)	30.8	24.0	11.4
ROE (%)	9.4	10.8	18.0

Risk-return profile

Shareholding pattern

(%)	Sep-07	Mar-07
Promoters	40.8	40.8
FIs	31.6	31.0
Banks & FIs	22.9	23.3
Public	4.7	4.9

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Madhucon	345	36.4	38.0	72.0
Sensex	19,976	12.4	32.0	43.4

Company website www.madhucon.com
BOT projects fuel above-expected results

Madhucon Projects' (MPL) results are above our estimates with a considerable 70% YoY rise in net sales during Q2FY08 to Rs 1.6bn. The robust growth has been achieved on account of higher contribution from BOT road projects as well as the Polavaram irrigation project which commenced from May 2007 (after a delay of over a year). The company was able to execute the BOT road works at a faster pace since these projects are located in the drier states of Tamil Nadu and Rajasthan, enabling it to escape the monsoon-related slowdown in work.

The increased revenue share of high-margin BOT projects has raised the quarter's operating margin by 90bps YoY and 500bps QoQ to 21.1%. We expect the margin to sustain at these levels. MPL's net margin has decreased to 8.5% in Q2FY08 vis-à-vis 12% in Q2FY07 due to the withdrawal of tax benefits under Section 80IA.

MPL has a strong Rs 40.5bn order book and the management has indicated that these orders will be executed within two-and-a-half years as against three years estimated earlier. In view of the revised timeframe for project execution, we are raising our revenue and earnings estimates upward for FY08 and FY09. Our target price thus moves up from Rs 332 to Rs 393. At the current price of Rs 345, the stock discounts our FY08 and FY09 EPS of Rs 14.4 and Rs 30.3 by 24x and 11.4x respectively. We maintain our Buy rating on the stock.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	1,586.7	1,280.0	23.9
EBIDTA	334.5	217.6	53.7
PAT	135.1	92.0	46.8
EPS (Rs)	3.5	2.5	46.8

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Net sales	1,586.7	933.6	70.0	1,433.7	10.7
Other income	19.2	40.3	(52.4)	22.2	(13.5)
EBIDTA	334.5	189.0	77.0	230.7	45.0
Operating margin (%)	21.1	20.2	-	16.1	-
Interest	69.2	25.6	170.3	20.6	235.9
Depreciation	97.0	33.1	193.1	88.6	9.5
PBT	168.3	130.3	29.2	121.5	38.5
Tax	33.2	17.6	88.6	29.5	12.5
PAT	135.1	112.7	19.9	92.0	46.8

Source: Company, Religare Research

Result highlights

BOT projects aid sales growth of 70% YoY

MPL has logged a 70% increase in net sales during the quarter to Rs 1.6bn as against Rs 933.6mn in Q2FY07. This was led by higher revenue booking on its four BOT (build-operate-transfer) road projects as well as contribution from the recently commenced Polavaram Indira Sagar irrigation project.

Higher revenues from BOT road projects and start-up of the Polavaram project drove sales

Although construction players typically witness a downtrend in the second quarter due to the monsoon season, MPL was able to book higher revenues on its BOT projects since they are located in the drier states of Tamil Nadu and Rajasthan. Moreover, the management has indicated that these projects are on track to be completed ahead of schedule. The Polavaram project too has started contributing from May 2007 onwards after being delayed for over a year due to the lack of environmental clearances. The company has booked revenues of Rs 200mn from this project in the first half of the fiscal and expects to further book Rs 700mn-750mn in the second half.

EBITDA margin expands 90bps to 21.1%

MPL's core operating margin has improved 90bps YoY to 21.1% due to the high-margin BOT projects. We expect the margin to sustain at these levels since the projects are on track for timely completion.

Higher interest, depreciation and tax constrain PAT growth

A sharp increase in interest and depreciation cost (up 170% and 193% YoY respectively) coupled with higher tax outgoings due to the withdrawal of benefits under Sec 80 IA restricted net profit growth to 20% YoY. Interest cost has increased significantly from Rs 25.6mn in Q2FY07 to Rs 69.2mn on account of two ECBs of Rs 740mn availed of by the company for expansion.

Business update

Rs 40.5bn order book to be executed within 2.5 years, faster than expected

Order book to be executed ahead of schedule – we raise estimates

Core business: MPL has a strong order book of Rs 40.5bn, which at 8.1x FY07 sales is substantially higher than peers. Water-related projects account for 34% of the gross order book, while road projects account for the balance 66%. The management had previously indicated that its order book would be executed within a 3-year timeframe.

However, with the BOT projects running ahead of schedule and work on the Polavaram irrigation project having commenced, MPL now expects its entire order book to be executed within the next two-and-a-half years itself. In view of the faster project execution, we are raising our estimates for FY08 and FY09 and revising our target price for the core business from Rs 274/share to Rs 309/share (excluding BOT projects).

BOT projects: The four BOT road projects currently comprise 67% of the road segment gross order book at Rs 17.5bn. These are toll-based works and have all achieved financial closure. With the work moving ahead of schedule (64% of the Bharatpur–Mahua road completed to date), we have raised the value per share of these four BOT projects cumulatively from Rs 44.5/share to Rs 66/share.

BOT and housing projects

Location	Length	Type	Project cost	Equity	Debt	Grant	MPL stake (%)	Value (Rs mn)	Per share (Rs)
Bharatpur-Mahua	58km	Toll-based	3,000	620	1,980	400	74	26	19.2
Karur-Dindigul	68km	Toll-based	3,660	600	2,200	860	74	17	12.6
Madurai-Tuticorin	129km	Toll-based	8,324	1450	5,424	1,450	51	30	15.3
Thanjavur-Trichy	55km	Toll-based	4,168	750	2,668	750	100	19	19.0
Total									66.1

Source: Company, Religare Research

We raise our estimates and target; Buy

We upgrade target to Rs 393; Buy

On building in a value of Rs 18/share for the company's real estate projects along with the upgraded values for the core business (Rs 309/share) and BOT projects (Rs 66/share), our sum-of-the-parts (SOTP) target rises to Rs 393/share. We maintain our Buy recommendation on the scrip. We have not built in the company's new forays into power and coal mining, and any revenues accruing from these projects will serve as upsides to our estimates.

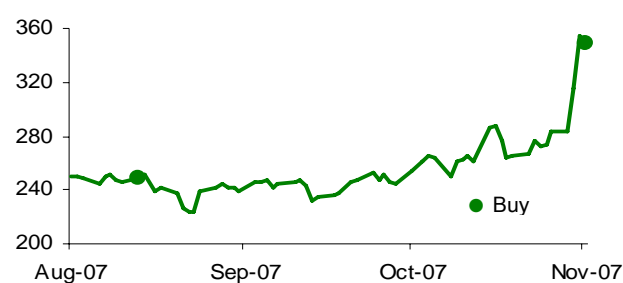
At the current price of Rs 345, MPL discounts its FY08E and FY09E EPS by 24x and 11.4x, net of BOT valuation. Considering the robust revenue visibility over the next two years, we strongly believe the stock is trading at an attractive valuation.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
14-Aug-07	Company Update	247	332	Buy
05-Nov-07	Results Update	345	393	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	3,420.9	5,100.5	7,312.4	13,300.0
Growth (%)	11.7	49.1	43.4	81.9
EBITDA	626.6	770.2	1,294.2	2,232.7
Growth (%)	55.3	22.9	68.0	72.5
Depreciation	191.3	238.6	360.0	420.0
EBIT	435.3	531.6	934.2	1,812.7
Growth (%)	67.5	22.1	75.7	94.0
Interest	134.0	112.0	230.0	270.0
Other income	74.5	155.7	50.0	50.0
EBT	375.7	575.3	754.2	1,592.7
Growth (%)	44.7	53.1	31.1	111.2
Tax	42.8	158.2	220.0	470.0
Effective tax rate (%)	11.4	27.5	29.2	29.5
Net income (adjusted)	333.0	417.1	534.2	1,122.7
Growth (%)	105.7	25.4	28.1	110.2
Shares outstanding(mn)	37.1	37.1	37.1	37.1
FDEPS (Rs)	9.0	11.2	14.4	30.3
DPS (Rs)	0.6	0.6	0.6	0.6
CEPS(Rs)	14.2	17.7	24.2	41.7

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	332.5	417.1	534.2	1,122.7
Depreciation	191.3	238.6	360.0	420.0
Other non-cash adj	176.8	270.2	450.0	740.0
Changes in WC	(1,150.8)	647.7	(29.7)	(913.0)
Operating cash flow	(450.2)	1,573.6	1,314.5	1,369.7
Capital expenditure	(398.5)	(1,090.3)	(650.0)	(450.0)
Investments	(0.5)	(1,925.5)	-	-
Other investing cash flow	-	-	-	-
Investing cash flow	(399.1)	(3,015.7)	(650.0)	(450.0)
Free cash flow	(849.2)	(1,442.1)	664.5	919.7
Issue of equity / warrants	2,753.7	-	-	-
Issue/repay debt	637.9	(50.2)	287.2	424.8
Dividends and Taxes paid	(100.4)	(96.6)	(204.2)	(267.0)
Int Paid	(134.0)	(112.0)	(230.0)	(270.0)
Financing cash flow	3,157.2	(258.9)	(147.0)	(112.2)
Beginning cash & cash eq	2,307.9	(1,701.0)	517.5	807.5
Change in cash & cash eq	580.4	2,888.8	1,187.8	1,705.3
Closing cash & cash eq	2,888.8	1,187.8	1,705.3	2,513.0

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash	2,888.8	1,187.8	1,705.3	2,513.0
Accounts receivable	1,022.0	572.9	821.4	1,639.7
Inventories	507.7	908.3	1,202.0	2,368.5
Others current assets	1,835.1	1,510.7	1,512.0	1,611.4
Current assets	6,253.6	4,179.7	5,240.7	8,132.6
LT investments	13.0	1,938.5	1,938.5	1,938.5
Net fixed assets	1,133.1	1,984.8	2,274.8	2,304.8
CWIP	-	-	-	-
Total assets	7,399.7	8,103.0	9,454.0	12,375.6
Payable	2,208.7	2,448.2	2,961.8	4,133.0
Others	61.2	204.2	267.0	517.0
Current liabilities	2,269.9	2,652.4	3,228.8	4,650.0
LT debt	1,034.2	1,020.0	1,260.2	1,480.0
Other liabilities	0.1	-	-	-
Equity capital	74.2	74.2	74.2	74.2
Reserves	4,021.4	4,356.4	4,890.6	6,171.3
Networth	4,095.6	4,430.6	4,964.8	6,245.5
Total liabilities	7,399.7	8,103.0	9,454.0	12,375.6
BVPS(Rs)	110.4	119.4	133.8	168.3

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	18.3	15.1	17.7	16.8
EBIT margin (%)	12.7	10.4	12.8	13.6
Net profit margin (%)	9.7	8.2	7.3	8.4
EPS growth (%)	105.7	25.4	28.1	110.2
Receivables (days)	109.0	41.0	41.0	45.0
Inventory (days)	54.2	65.0	60.0	65.0
Payables (days)	348.9	275.4	231.0	135.0
Current ratio(x)	2.8	1.6	1.6	1.7
Interest coverage (x)	3.2	4.7	4.1	6.7
Debt/equity ratio (x)	0.3	0.2	0.3	0.2
ROE (%)	8.1	9.4	10.8	18.0
ROCE (%)	9.0	9.7	12.3	18.0
ROAE (%)	4.5	5.1	5.7	9.1
EV/Sales (x)	4.1	2.7	1.9	1.1
EV/EBITDA (x)	19.9	15.0	10.5	6.3
P/E (x)	38.3	30.8	24.0	11.4
P/BV (x)	3.2	2.9	2.6	2.1
P/CEPS (x)	24.3	19.5	14.2	8.2

Source: Company, Religare Research

RELIGARE RESEARCH

Fundamental Research

Amitabh Chakraborty, CFA, FRM	President - Equity	amitabh.chakraborty@religare.in	(91-22) 6612 4602
Piyush Parag	Auto, Auto Ancillaries, Shipping	piyush.parag@religare.in	(91-22) 6612 4730
Abhishek Banerjee	Auto, Auto Ancillaries, Shipping	abhishek.banerjee@religare.in	(91-22) 6612 4764
Abhishek Agarwal	Agri-commodities, Banking	abhishek.a@religare.in	(91-22) 6612 4753
Dinesh Shukla	Agri-commodities, Banking	dinesh.shukla@religare.in	(91-22) 6612 4739
Ram Patnaik	Agri-commodities, Media, FMCG	ram.patnaik@religare.in	(91-22) 6612 4752
Vinod Nair	Capital Goods, Engg, Metals, Media, Power	nair.vinod@religare.in	(91-22) 6612 4731
Ronald Siyoni	Capital Goods, Engineering	ronald.siyoni@religare.in	(91-22) 6612 4615
Dalpat Mehta	Cement, Textiles	dalpat.mehta@religare.in	(91-22) 6612 4696
Anurag Purohit	Information Technology, Telecom, Power	anurag.purohit@religare.in	(91-22) 6612 4795
Hitesh Punjabi	Information Technology, Telecom	hitesh.punjabi@religare.in	(91-22) 6612 4769
Rahul Gajare	Power	rahul.gajare@religare.in	(91-22) 6612 4749
Suman Memani	Mid-caps, Construction, Realty	suman.memani@religare.in	(91-22) 6612 4736
Sudeep Anand	Oil & Gas, Chemicals	sudeep.anand@religare.in	(91-22) 6612 4670
Alok Dalal	Pharmaceuticals	alok.dalal@religare.in	(91-22) 6612 4750

Technical Research

Birendrakumar Singh	birendrakumar.singh@religare.in	(91-22) 6612 4657
Vasant Joshi	vasant.joshi@religare.in	(91-22) 6612 4614
Amit Shitut	amit.shitut@religare.in	(91-20) 3024 0376
Kalpana Kabra	kalpana.kabra@religare.in	(91-33) 3051 0947

Derivatives Research

Anil Gupta	anil.g@religare.in	(91-22) 6612 4661
Samir Badami	samir.badami@religare.in	(91-22) 6612 4637
Somendra Agarwal	somendra.agarwal@religare.in	(91-22) 6612 4767

Production

Anisha deSa	anisha.desa@religare.in	(91-22) 6612 4729
R Murali	r.murali@religare.in	(91-22) 6612 4674
Rajesh Mhatre	rajesh.mhatre@religare.in	(91-22) 6612 4728

Administration

Shraddha Hosalkar	shraddha.hosalkar@religare.in	(91-22) 6612 4680
-------------------	-------------------------------	-------------------

Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

Religare Securities

Mumbai: 3rd Floor, Dheeraj Arma, Anant Kanekar Marg, Bandra (East), Mumbai-400 051. Phone: +91 22 66124600 Fax- 66124781

New Delhi: 19, Nehru Place, New Delhi - 110019, Phone: +91 11 30815100.

Disclaimer

Religare Securities Limited (Religare) has two independent equity research groups: Institutional Equities (Institutional Equity Research) and Priority Client Group (Religare Research). Religare Institutional Equity Research is aimed to service the institutional clients of Religare Securities Limited including the Portfolio Management Services of Religare whereas Religare Research is published with a view to service all segments of clients including Retail, HNIs and Institutional clients and PMS.

This document has been prepared by Religare Securities Limited – Priority Client Group. Affiliates of Religare-PCG may have issued other reports that are contrary with and reach different conclusion from the information presented in this report. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating and target price of the Institutional Equities Research Group of Religare Securities Limited.

We are not soliciting any action based upon this material. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Religare-PCG. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Religare-PCG will not treat recipients as customers by virtue of their receiving this report. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable. It should be noted that the information contained herein is from publicly available data or other sources believed to be reliable. Neither Religare, nor any person connected with it, accepts any liability arising from the use of this document.

This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The investment discussed or views expressed may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Religare, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Religare and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Religare and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Religare and its affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall Religare, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Copyright in this document vests exclusively with Religare. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from Religare. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst's holding in the stocks mentioned in the report: **NIL**.