

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	MAPR.BO
Bloomberg code	MDHP IN
Market cap. (US\$ mn)	262
6M avg daily turnover (US\$ mn)	1.2
Issued shares (mn)	74
Target price (Rs)	233

#### Performance (%) 1M 3M 12M

Absolute	(3)	(29)	188
Relative	3	(30)	63

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	7.2	9.7
+/- (%)	12.8	34.9
PER (x)	22.9	17.0
PBV (x)	2.1	1.9
Dividend/Yield (%)	0.5	0.5
EV/Sales (x)	1.2	1.1
EV/EBITDA (x)	10.2	8.8

#### Major shareholders (%)

Promoters	58
FII's	13
MFs & Fis	12
Public & Others	17

#### Financial highlights

(Rs mn)	3QFY09	3QFY10	YoY (%)	9MFY09	9MFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	1,504	2,803	86.3	6,330	8,198	29.5	10,254	12,193	18.9	14,428	18.3
EBITDA	234	347	48.2	972	989	1.7	1,240	1,488	20.0	1,832	23.2
EBITDA Margin (%)	15.6	12.4	-	15.4	12.1	-	12.1	12.2	-	12.7	-
Depreciation	88	115	29.7	328	330	0.6	433	476	9.8	565	18.6
Other Income	45	13	(70.9)	78	84	7.8	191	120	(37.2)	175	45.8
Interest	26	68	159.1	136	180	32.0	266	317	19.3	377	18.8
PBT	164	177	8.1	585	563	(3.9)	731	814	11.3	1,066	30.9
Tax	25	69	169.1	170	203	19.3	262	285	8.7	352	23.4
PAT	139	109	(21.5)	415	359	(13.4)	469	529	12.8	714	34.9
PAT Margin (%)	9.2	3.9	-	6.6	4.4	-	4.6	4.3	-	4.9	-
Adjusted EPS (Rs)	1.9	1.5	(21.5)	5.6	4.9	(13.4)	6.4	7.2	12.8	9.7	34.9

## Madhucon Projects

**Maintain BUY**

Price: Rs 165

BSE Index: 16,358

30 January 2010

### 3QFY10 Result – Infrastructure assets to unlock value

**Madhucon Projects's (Madhucon) results are below our expectations due to lower than expected sales. Net sales for the quarter stood at Rs 2.8 bn with 86% YoY growth. Net profit stood at Rs 109 mn (down 22% YoY). Madhucon expects its remaining two under execution BOT road projects to be operational by 4QFY10. It is bidding for NHAI projects and expects few more BOT road projects in its portfolio. It has started excavation in its South Sumatra coal mine in Indonesia and expects the commercial production to commence in FY11E. We await for more clarity on the mining business before valuing the same. Timely progress on the power generation and coal mining business will be key positive for the company, as these projects are of a significant size. Madhucon's success in listing its infrastructure subsidiary to raise funds for its equity requirements can also be a major trigger for the stock as it will unlock the value. Robust order book of ~Rs 39 bn (2.7x FY11E sales) provides revenue visibility. However, due to lower than expected sales we have revised our earnings estimates downwards by 14% for FY10E and by 5% for FY11E. At the current market price, the stock is trading at 4x FY10E and 3x FY11E (Ex-Inv) earnings. Maintain Buy.**

### Highlights

- The company changed its revenue recognition policy from 01 April 2009 wherein the completed work which is not billed, is treated as work-in-progress and is valued on the basis of actual expenditure incurred. Post change in accounting policy, unbilled completed work now forms a part of change in stock (earlier formed a part of net sales). The company has regrouped net sales for 3QFY09.

- The order book stood at Rs 39 bn, which is 3.2x FY10E and 2.7x FY11E, sales. The order book comprises: roads ~27%, irrigation ~34%, power ~22% and others (includes building and mining) ~17%.
- The construction work is progressing for the first phase (300 MW) of Simhapuri Power plant and BTG supplies from China are expected to start soon. Financial closure for the second phase of 300 MW is expected to be completed in CY10.
- Madhucon will be investing ~Rs 10 bn in next two-three years in its various infrastructure businesses. The company is expected to list its infrastructure subsidiary (comprises of roads, power and mining assets) company to raise funds for its equity requirements.

#### SOTP valuation

Business	Basis	Value (Rs/share)
Construction	10x FY11E EPS	97
BOT road projects	DCF	104
Simhapuri power plant (1 <sup>st</sup> phase)	DCF	32
<b>Total</b>	-	<b>233</b>

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>7,380</b>	<b>10,254</b>	<b>12,193</b>	<b>14,428</b>
<i>Growth (%)</i>	<i>44.7</i>	<i>38.9</i>	<i>18.9</i>	<i>18.3</i>
Operating expenses	(6,307)	(9,015)	(10,705)	(12,595)
Operating profit	1,073	1,240	1,488	1,832
<b>EBITDA</b>	<b>1,073</b>	<b>1,240</b>	<b>1,488</b>	<b>1,832</b>
<i>Growth (%)</i>	<i>40.1</i>	<i>15.5</i>	<i>20.0</i>	<i>23.2</i>
Depreciation	(339)	(433)	(476)	(565)
Other income	126	191	120	175
<b>EBIT</b>	<b>860</b>	<b>997</b>	<b>1,132</b>	<b>1,442</b>
Interest paid	(165)	(266)	(317)	(377)
Pre-tax profit	695	731	814	1,066
(before non-recurring items)				
Pre-tax profit	695	731	814	1,066
(after non-recurring items)				
Tax (current + deferred)	(223)	(262)	(285)	(352)
Net profit	473	469	529	714
<b>Adjusted net profit</b>	<b>473</b>	<b>469</b>	<b>529</b>	<b>714</b>
<i>Growth (%)</i>	<i>13.7</i>	<i>(0.7)</i>	<i>12.8</i>	<i>34.9</i>
Net income	473	469	529	714

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	7,086	7,150	9,320	11,237
Investments	2,997	3,728	4,227	4,727
Net fixed assets	2,480	2,884	3,083	3,368
<b>Total assets</b>	<b>12,563</b>	<b>13,762</b>	<b>16,630</b>	<b>19,332</b>
Current liabilities	5,553	5,078	6,675	7,917
Total debt	1,962	3,199	4,011	4,826
Other non-current liabilities	122	125	124	124
<b>Total liabilities</b>	<b>7,637</b>	<b>8,402</b>	<b>10,810</b>	<b>12,867</b>
Share capital	74	74	74	74
Reserves & surplus	4,852	5,286	5,746	6,392
<b>Shareholders' funds</b>	<b>4,925</b>	<b>5,360</b>	<b>5,820</b>	<b>6,465</b>
<b>Total equity &amp; liabilities</b>	<b>12,563</b>	<b>13,762</b>	<b>16,630</b>	<b>19,332</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	695	731	814	1,066
Depreciation	329	423	476	565
Chg in working capital	360	(799)	(507)	(701)
Total tax paid	(134)	(176)	(286)	(352)
<b>Cash flow from oper. (a)</b>	<b>1,250</b>	<b>179</b>	<b>497</b>	<b>578</b>
Capital expenditure	(853)	(827)	(674)	(850)
Chg in investments	(686)	(731)	(500)	(500)
<b>Cash flow from inv. (b)</b>	<b>(1,539)</b>	<b>(1,558)</b>	<b>(1,174)</b>	<b>(1,350)</b>
<b>Free cash flow (a+b)</b>	<b>(289)</b>	<b>(1,379)</b>	<b>(677)</b>	<b>(772)</b>
Debt raised/(repaid)	(50)	1,237	812	815
Dividend (incl. tax)	(26)	(26)	(35)	(69)
<b>Cash flow from fin. (c)</b>	<b>(76)</b>	<b>1,211</b>	<b>777</b>	<b>746</b>
<b>Net chg in cash (a+b+c)</b>	<b>(364)</b>	<b>(168)</b>	<b>101</b>	<b>(26)</b>

**Key Ratios**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS(Rs)	6.4	6.4	7.2	9.7
EPS growth	13.7	(0.7)	12.8	34.9
EBITDA margin	14.5	12.1	12.2	12.7
EBIT margin	11.7	9.7	9.3	10.0
RoCE	12.7	12.7	12.1	13.5
Net debt/Equity	19.2	43.9	52.6	60.4

**Valuations**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	25.7	25.9	22.9	17.0
PCE	15.0	13.5	12.1	9.5
Price/Book	2.5	2.3	2.1	1.9
Yield (%)	0.2	0.2	0.5	0.5
EV/Net sales	1.8	1.4	1.2	1.1
EV/EBITDA	12.2	11.7	10.2	8.8

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY08	FY09E	FY10E	FY11E
Net margin (%)	6.4	4.6	4.3	4.9
Asset turnover	0.7	0.8	0.8	0.8
Leverage factor	2.4	2.6	2.7	2.9
Return on equity (%)	10.0	9.1	9.5	11.6

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**Analyst Declaration:** I, Vikash Verma, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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