

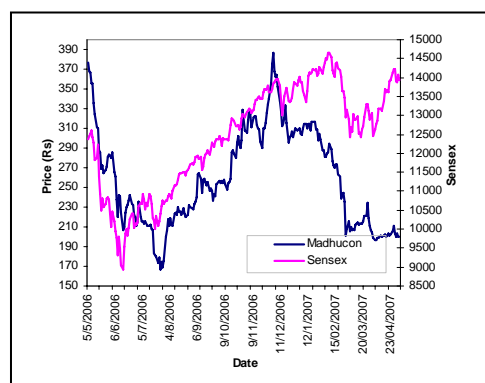
Madhucon Projects

CMP: Rs 200
Buy
**Target Price: Rs 351
(12 Months)**
Shailesh Kanani
Tel: 022 – 4040 3800 Ext: 321
e-mail: shailesh.kanani@angeltrade.com

Sector	Construction
Market Cap (Rs cr)	737
Beta	0.95
52 WK High / Low	409/ 160
Avg Daily Volume	62250
Face Value (Rs)	2
BSE Sensex	13934
Nifty	4117
BSE Code	531497
NSE Code	MADHUCON
Reuters Code	MAPR.BO
Bloomberg Code	MDHPJ IN

Shareholding Pattern (%)

Promoters	40.8
MF/Banks/Indian FIs	3.9
FII/ NRIs/ OCBs	48.8
Indian Public	6.5

Share Price Vs Sensex

Q4FY2007 Result Update
Performance Highlights

- Net Sales Surge:** For Q4FY2007, Madhucon Projects Limited (MPL) reported results in line with our estimates – the topline grew by 54% to Rs183.1cr (Rs 118.9cr). MPL's Topline for FY2007 grew by 49% to Rs 510cr (Rs 342cr). This was on the back of a construction boom in the country and a strong order book position of the company. Additionally, this was inspite of the two stalled Polavaram Projects (by the Andhra Pradesh government) in FY2007.
- Operating Margins Improve:** MPL enjoys better operating margins in comparison to its peers. This can be attributed to its strategy of owning one-hundred percent of its equipment and sub-contracting only low value activities. Additionally, not raising debt and financing largely from internal accruals has helped the company keep its net margin higher than its peers. The reported OPM for Q4FY2007 was 16.8%(14.2%), and for 15.1% (14.0%).
- Strong Order Book:** MPL has a gross order book position of Rs 5,280cr and the outstanding order position is approximately Rs. 4,352cr. The outstanding order consists of Roads (58%), mainly Highways and Flyovers, and Irrigation (40%). This is inspite of the fact that only orders worth Rs 135cr have been added during FY2007. The current order book is 8.53x FY2007 net sales, which gives a strong visibility for the next few years.

Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2006	FY2007	FY2008E	FY2009E
Net Sales	342.0	510.0	923.3	1,534.4
% chg	-	49.1	81.0	66.2
Net Profits	29.4	41.7	51.3	86.8
% chg	-	42.0	23.0	69.0
OPM (%)	14.0	15.1	13.3	12.2
EPS (Rs)*	7.6	10.7	13.2	22.3
P/E (x)	26.4	18.6	15.1	9.0
RoE (%)	7.2	9.5	9.5	14.0
RoCE (%)	11.3	12.7	16.0	19.4
EV/Sales (x)	1.6	1.6	1.1	0.8
EV/EBITDA (x)	11.6	10.4	8.3	6.3

Note : EPS calculated on fully diluted basis; Source: Company; Angel Research*

Key Developments

- MPL is entering into the Power segment: it has picked up a 48% stake in Simhapuri Energy Pvt Ltd, through a special purpose vehicle (SPV) jointly promoted by the Malaxmi Group, Hyderabad. The 540MW project will be developed in two phases, 270MW each, primarily using imported coal. The company has also taken a coal mine in Indonesia with a total area of 5,000 hectares. Initially, 100 hectares will be exploited, with the first excavation taking place by August-September 2007.
- The two Polavaram projects which were stalled by the AP Government from April 2006, have got the go ahead through a Supreme Court directive. The total cost of these projects is Rs 832cr (Rs 636cr for the spillway dam and Rs 196cr for the Polavaram lift canal project). This would boost to the Topline of the company for the next few years.

Outlook

MPL is a key construction player operating in areas including road construction, irrigation, railway and housing, and enjoys an outstanding order book of Rs 4352cr. The increasing focus on infrastructure activities, coupled with its large order book, are likely to boost the earnings growth and revenue visibility for MPL going ahead; we expect a 46% CAGR YoY in net profits for FY2008 and FY2009.

With rising interest rates the interest cost on the existing loans will increase, which could erode margins. However, considering MPL's strong operational cash flows, and its recently concluded GDR issue, we believe that the company is strong enough to offset any moderate increase in interest rates.

During the next few months, the AP government is expected to release orders worth Rs15000cr to Rs20000cr for irrigation projects alone. We believe that Madhucon has a good chance to secure a number of contracts, as it is one of the few qualified bidders. The company is also entering into real estate and hydro-power, which would add strength to its order book.

Valuation

We have valued MPL on a Sum-of-the-Part (SOTP) basis by valuing the core construction business on a Discounted Cash Flow (DCF) basis, and valuing BOT projects and the Real Estate business separately on Net Present Value (NPV) basis. Therefore, we have arrived at a value of Rs 280.6 (per share) for the core construction business, Rs 43.1 for the four BOT projects, and Rs 27.6 for the real estate business. **We maintain a BUY on the stock with a target price of Rs 351.**

Exhibit 2: Q4FY2007 Standalone Performance						
Y/E March (Rs cr)	Q4FY2007	Q4FY2006	% Chg	FY2007	FY2006	% Chg
Net Sales	183.1	118.9	54%	510.0	342.0	49%
Total Expenditure	152.4	102.0	49%	433.0	294.1	47%
Operating Profit	30.7	16.9	81%	77.0	47.9	61%
OPM (%)	16.8	14.2	-	15.1	14.0	-
Interest	3.5	0.1	-	11.2	0.6	-
Depreciation	7.2	5.7	-	23.9	17.1	-
Non Operating Income	3.5	5.1	-	15.6	6.4	-
Non recurring items	0.0	0.0	-	0.0	0.0	-
Profit Before tax	23.4	16.3	44%	57.5	36.6	57%
Tax	11.9	1.0	-	15.8	7.1	-
Reported Profit After Tax	11.6	15.3	-24%	41.7	29.4	42%
PAT (%)	6.3	12.9	-	8.2	8.6	-
Adjusted Profit After Tax	11.6	15.3	24%	41.7	29.4	42%
Adj. PAT (%)	6.3	12.9	-	8.2	8.6	-
Adj. EPS	3.1	4.1	-	11.3	7.9	43%

Note*: EPS calculated on fully diluted basis; Source: Company; Angel Research



Angel Broking Limited

Research Team Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us 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. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

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 their 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 - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks 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.

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, Angel Broking, 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 Angel Broking 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.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539