

RESULT UPDATE

MID CAP

Share Data

Reuters code	MAPR.BO
Bloomberg code	MDHPJ IN
Market cap. (US\$ mn)	275
6M avg. daily turnover (US\$ mn)	1.2
Issued shares (mn)	74
Target price (Rs)	217

Performance (%)	1M	3M	12M
Absolute	4	1	114
Relative	4	(6)	39

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	9.3	10.0
+/- (%)	59.2	7.5
PER (x)	17.7	16.5
PBV (x)	1.9	1.7
Dividend/Yield (%)	0.5	0.5
EV/Sales (x)	1.0	0.9
EV/EBITDA (x)	9.3	8.5

Major shareholders (%)

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

Financial highlights

(Rs mn)	4QFY09	4QFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)	FY12E	YoY (%)
Net Sales	2,621	4,864	85.5	9,831	13,076	33.0	16,241	24.2	18,408	13.3
EBITDA	241	309	28.3	1,240	1,342	8.3	1,787	33.1	2,062	15.4
EBITDA margin (%)	9.2	6.4	-	12.6	10.3	-	11.0	-	11.2	-
Depreciation	100	118	17.5	433	449	3.5	503	12.2	585	16.3
Other Income	69	2	(96.6)	191	46	(75.9)	100	117.2	100	-
Interest	32	78	143.6	266	258	(2.8)	356	37.7	472	32.8
PBT	177	115	(35.0)	731	681	(6.8)	1,027	50.8	1,104	7.5
Tax	98	46	(53.3)	262	249	(5.0)	339	36.1	364	7.5
PAT	78	69	(12.2)	469	432	(7.8)	688	59.2	740	7.5
PAT margin (%)	3.0	1.4	-	4.8	3.3	-	4.2	-	4.0	-
EPS (Rs)	1.1	0.9	(12.2)	6.4	5.9	(7.8)	9.3	59.2	10.0	7.5

Madhucon Projects

Maintain BUY

Price: Rs 166

BSE Index: 17,559

30 April 2010

4QFY10 Result – Infrastructure assets to create value

Madhucon Projects's (Madhucon) results are above our expectations at the topline but below our estimates at the earnings level. Net sales for the quarter stood at Rs 4.9 bn with 86% YoY growth. However, due to lower EBITDA margin (~6.4%) during the quarter, the net profit de-grew by 12% YoY and stood at Rs 69 mn. The company ramped up work on the first phase of 300 MW of Simhapuri Power plant which resulted in the strong growth in the revenues but margins took a hit due to higher sub-contracting work during the quarter. The company's two BOT road projects are operational and the remaining two under execution BOT road projects are expected to be operational by June 2010. The company has done some excavation (~10,000-15,000 tonnes) in its South Sumatra coal mine. Though there has been a considerable delay from its initial timelines, it expects commercial production of 0.6 mn tonnes by end FY11E. Robust order book of Rs 40 bn (excluding the recent win of Rs 12 bn EPC contract) provides revenue visibility. The share of captive order book (currently around 40% of the order book) is expected to increase further, as the company adds more BOT projects in its portfolio. However, we have downward revised the earnings estimates by 4% for FY11E and by 6% for FY12E to build in the higher sub-contracting work. Timely progress on power generation project, coal mining business and real estate are crucial given their size. Madhucon's success in raising funds in its infrastructure subsidiary for its equity requirements will be a key trigger. At the current market price, the stock is trading at 4.6x FY11E and 4.2x FY12E (Ex-investments) earnings. Maintain Buy.

Highlights

- Madhucon has emerged as a lowest bidder in one BOT annuity road project, in Bihar and has also been awarded an in-house EPC contract of Rs 12 bn for the second phase of 300 MW of Simhapuri Power Plant.

- The order book stood at Rs 40 bn, which is 2.5x FY11E and 2.2x FY12E, sales. The order book comprises of roads ~20%, irrigation ~35%, power ~31% and others (building and mining) ~14%.
- Madhucon has deferred the IPO plans of its infrastructure subsidiary (comprises of roads, power and mining assets) company for the next year but plans to raise ~Rs 4 bn (in one or more tranches) through private placement in the next three-five months.
- 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 4QFY09.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	9,831	13,076	16,241	18,408
Growth (%)	33.2	33.0	24.2	13.3
Operating expenses	(8,591)	(11,734)	(14,455)	(16,346)
Operating profit	1,240	1,342	1,787	2,062
EBITDA	1,240	1,342	1,787	2,062
Growth (%)	15.5	8.3	33.1	15.4
Depreciation	(433)	(449)	(503)	(585)
Other income	191	46	100	100
EBIT	997	940	1,383	1,576
Interest paid	(266)	(258)	(356)	(472)
Pre-tax profit	731	681	1,027	1,104
(before non-recurring items)				
Pre-tax profit	731	681	1,027	1,104
(after non-recurring items)				
Tax (current + deferred)	(262)	(249)	(339)	(364)
Net profit	469	432	688	740
Adjusted net profit	469	432	688	740
Growth (%)	(0.7)	(7.8)	59.2	7.5
Net income	469	432	688	740

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Current assets	7,150	9,360	11,604	13,727
Investments	3,728	4,227	4,727	5,227
Net fixed assets	2,884	3,083	3,429	3,844
Total assets	13,762	16,670	19,761	22,798
Current liabilities	5,078	6,543	8,070	9,355
Total debt	3,199	4,116	5,061	6,143
Other non-current liabilities	125	124	124	124
Total liabilities	8,402	10,784	13,256	15,623
Share capital	74	74	74	74
Reserves & surplus	5,286	5,812	6,431	7,102
Shareholders' funds	5,360	5,886	6,505	7,176
Total equity & liabilities	13,762	16,670	19,761	22,798

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Pre-tax profit	731	681	1,027	1,104
Depreciation	423	476	503	585
Chg in working capital	(799)	(796)	(854)	(640)
Total tax paid	(176)	(250)	(339)	(364)
Cash flow from oper. (a)	179	111	337	685
Capital expenditure	(827)	(674)	(850)	(1,000)
Chg in investments	(731)	(500)	(500)	(500)
Cash flow from inv. (b) (1,558)	(1,174)	(1,350)	(1,500)	(1,500)
Free cash flow (a+b)	(1,379)	(1,062)	(1,013)	(815)
Equity raised/(repaid)	0	(0)		
Debt raised/(repaid)	1,237	918	945	1,082
Dividend (incl. tax)	(26)	(35)	(69)	(69)
Other financing activities	0	163		
Cash flow from fin. (c) 1,211	1,046	876	1,013	1,013
Net chg in cash (a+b+c) (168)	(16)	(137)	198	198

Key Ratios

Yr end 31 Mar (%)	FY09	FY10P	FY11E	FY12E
EPS(Rs)	6.4	5.9	9.3	10.0
EPS growth	(0.7)	(7.8)	59.2	7.5
EBITDA margin	12.6	10.3	11.0	11.2
EBIT margin	10.1	7.2	8.5	8.6
RoCE	12.7	10.0	12.7	12.5
Net debt/Equity	43.9	55.8	67.1	73.2

Valuations

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
PER	26.0	28.3	17.7	16.5
PCE	13.5	13.9	10.2	9.2
Price/Book	2.3	2.1	1.9	1.7
Yield (%)	0.2	0.5	0.5	0.5
EV/Net sales	1.5	1.2	1.0	0.9
EV/EBITDA	11.7	11.5	9.3	8.5

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09E	FY10P	FY11E	FY11E
Net margin (%)	4.8	3.3	4.2	4.0
Asset turnover	0.7	0.9	0.9	0.9
Leverage factor	2.6	2.7	2.9	3.1
Return on equity (%)	9.1	7.7	11.1	10.8

Vikash Verma
vikash.verma@bksec.com
+91-120-460 5615

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.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

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

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.