

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	HCNS.BO
Bloomberg code	HCC IN
Market cap. (US\$ mn)	320
6M avg. daily turnover (US\$ mn)	2.5
Issued shares (mn)	607
Target price (Rs)	24

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

Absolute	(10)	(20)	(56)
Relative	(10)	(13)	(49)

#### Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	(0.6)	0.3
PER (x)	–	83.8
PBV (x)	1.1	1.1
Dividend/Yield (%)	1.5	1.5
EV/Sales (x)	1.3	1.2
EV/EBITDA (x)	10.2	8.9

#### Major shareholders (%)

Promoters	40
FII's	24
MFs/BFSIs	5
Public & Others	31

#### Financial highlights

(Rs mn)	2QFY11	2QFY12	YoY (%)	FY10	FY11	YoY (%)	FY12E	YoY (%)	FY13E	YoY (%)
Net sales	8,888	8,302	(6.6)	36,442	40,932	12.3	42,448	3.7	48,235	13.6
EBITDA	1,133	936	(17.4)	4,279	5,373	25.6	5,433	1.1	6,271	15.4
EBITDA margin (%)	12.7	11.3	–	11.7	13.1	–	12.8	–	13.0	–
Other income	61	(30)	–	130	170	30.6	100	(41.1)	200	100.0
Interest	671	1,074	60.2	2,052	2,899	41.3	4,306	48.5	4,505	4.6
Depreciation	359	414	15.5	1,139	1,527	34.1	1,629	6.7	1,693	3.9
PBT	165	(582)	–	1,218	1,117	(8.3)	(402)	–	273	–
Tax	43	(176)	–	404	407	0.7	(40)	–	82	–
PAT	121	(406)	–	814	710	(12.8)	(361)	–	191	–
PAT margin (%)	1.4	(4.9)	–	2.2	1.7	–	(0.9)	–	0.4	–
EPS (Rs)	0.2	(0.7)	–	1.3	1.2	(12.8)	(0.6)	–	0.3	–

## Hindustan Construction Maintain Underperformer

Price: Rs 26

BSE Index: 16,786

21 October 2011

### 2QFY12 Result – In red

- Hindustan Construction Company (HCC) reported disappointing results with a decline in topline and negative bottomline. Revenue for the quarter stood at Rs 8.3 bn compared to Rs 8.9 bn in 2QFY11, a dip of 6.6% YoY. EBITDA margin declined to 11.3% compared to 12.7% in 2QFY11. Decline in sales and increase in depreciation (up 15.5%, YoY) and interest expense (up 60% YoY) led to a net loss of Rs 406 mn versus Rs 121 mn net profit in the previous corresponding quarter. This quarter, the company has reported a forex loss of Rs 42 mn due to weak rupee, which also fuel the tumbling PAT.
- Balance sheet has further deteriorated with increase in debt to Rs 41.7 bn (debt/equity of 2.8x) and working capital cycle of 349 days.
- Lavasa's performance continued to be adversely impacted by the MoEF's order to stop work. Lavasa has reported a loss of Rs 710 mn on standalone basis for 1HFY12 versus profit of Rs 1,103 mn in 1HFY11. The Bombay High Court has directed Government of Maharashtra to take action pending in accordance with MoEF directives within two weeks. It has also directed MoEF to pass a decisive order by 16 November 2011. Lavasa's Rs 1.68 bn of debt will be due for repayment in 2HFY12 and Rs 3.5 bn in FY13. The company is in talks with banks for postponement of repayment.

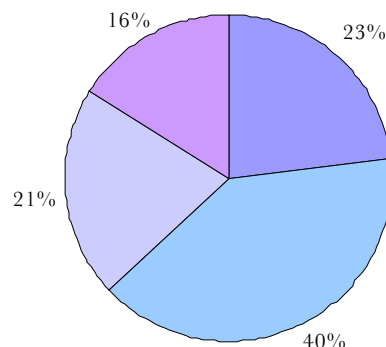
### Outlook and valuation

Order book of the company stands at Rs 162 bn (3.8x FY12E revenues). Considering long gestation nature of HCC's order book and significant exposure to irrigation and hydropower segments, revenue visibility is not strong. Improvement of stretched working capital cycle of 349 days and increased debt of Rs 41.7 bn (debt /equity 2.8x) remains a challenge and in a high interest rate scenario, higher interest cost will continue to impact earnings.

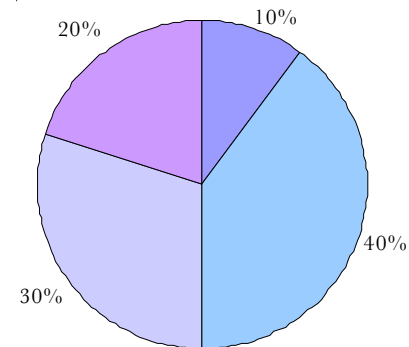
Though the management is hopeful about a positive outcome of Lavasa; in our view, due to a prolonged halt, restoring buyers' confidence, arranging the future funding and getting back the project on track will be a challenge. The stock trades at 1.1x FY13E book value and 84x FY13E earnings. We have revised our estimates downwards significantly. Maintain Underperformer.

**Order book** – The company's order book stands at Rs 162 bn and it is the lowest bidder on projects worth Rs 20.8 bn. There is drop of order inflow of 51% for first six months against previous six months.

**Order book break-up**



**Revenue break-up**



■ Water ■ Hydro ■ Transportation ■ Nuclear power, Thermal power and Others

Source: Company, B&K Research

**Fund raising for BOT projects** – The current BOT portfolio of the company comprises of 6 road projects worth Rs 55 bn. HCC has completed the transaction of raising funds of Rs 2.4 bn (at a valuation of Rs 16.5 bn or Rs 23/share of HCC) by diluting its 14.5% stake in HCC Concessions (BOT holding company) to Xander Group. With Rs 7.5 bn already invested by HCC, these funds will help in meeting the majority of balance equity commitment.

**Karl Steiner AG** – Closing order backlog stands at CHF 1.4 bn (Rs. 77 bn) excluding contracts worth CHF 475 mn (Rs. 26 bn), which is yet to be signed. Order inflow during Q2 is of Rs. 25 bn. Net sales of the company was flat and stood at CHF 172 mn, PAT of the company grew by 660% to CHF 4.2 mn.

**Income Statement**

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
<b>Net sales</b>	<b>36,442</b>	<b>40,932</b>	<b>42,448</b>	<b>48,235</b>
<i>Growth (%)</i>	<i>10.0</i>	<i>12.3</i>	<i>3.7</i>	<i>13.6</i>
Operating expenses	(32,013)	(35,534)	(37,014)	(41,964)
Operating profit	4,429	5,398	5,433	6,271
Other operating income	(150)	(25)		
<b>EBITDA</b>	<b>4,279</b>	<b>5,373</b>	<b>5,433</b>	<b>6,271</b>
<i>Growth (%)</i>	<i>(0.8)</i>	<i>25.6</i>	<i>1.1</i>	<i>15.4</i>
Depreciation	(1,139)	(1,527)	(1,629)	(1,693)
Other income	130	170	100	200
<b>EBIT</b>	<b>3,270</b>	<b>4,016</b>	<b>3,904</b>	<b>4,778</b>
Interest paid	(2,052)	(2,899)	(4,306)	(4,505)
Pre-tax profit (before non-recurring items)	1,218	1,117	(402)	273
Pre-tax profit (after non-recurring items)	1,218	1,117	(402)	273
Tax (current + deferred)	(404)	(407)	40	(82)
Net profit	814	710	(361)	191
<b>Adjusted net profit</b>	<b>814</b>	<b>710</b>	<b>(361)</b>	<b>191</b>
<i>Growth (%)</i>	<i>(35.0)</i>	<i>(12.8)</i>	<i>-</i>	<i>-</i>
<b>Net income</b>	<b>814</b>	<b>710</b>	<b>(361)</b>	<b>191</b>

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Current assets	46,242	60,960	66,118	68,865
Investments	4,087	5,313	6,313	7,313
Net fixed assets	11,845	12,100	12,213	12,021
<b>Total assets</b>	<b>62,175</b>	<b>78,373</b>	<b>84,645</b>	<b>88,199</b>
Current liabilities	20,430	26,772	27,404	31,050
Total Debt	25,147	34,714	41,000	41,000
Other non-current liabilities	1,426	1,665	1,665	1,665
<b>Total liabilities</b>	<b>47,003</b>	<b>63,151</b>	<b>70,068</b>	<b>73,715</b>
Share capital	303	607	607	607
Reserves & surplus	14,869	14,615	13,970	13,877
<b>Shareholders' funds</b>	<b>15,172</b>	<b>15,222</b>	<b>14,577</b>	<b>14,484</b>
<b>Total equity &amp; liab.</b>	<b>62,175</b>	<b>78,373</b>	<b>84,645</b>	<b>88,199</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Pre-tax profit	1,218	1,117	(402)	273
Depreciation	1,098	1,387	1,629	1,693
Chg in working capital	(6,515)	(8,320)	(4,952)	812
Total tax paid	(109)	(168)	40	(82)
<b>Cash flow from oper. (a)</b>	<b>(4,308)</b>	<b>(5,984)</b>	<b>(3,685)</b>	<b>2,696</b>
Capital expenditure	(1,198)	(1,641)	(1,743)	(1,500)
Chg in investments	(432)	(1,226)	(1,000)	(1,000)
<b>Cash flow from inv. (b)</b>	<b>(1,630)</b>	<b>(2,868)</b>	<b>(2,743)</b>	<b>(2,500)</b>
<b>Free cash flow (a+b)</b>	<b>(5,937)</b>	<b>(8,852)</b>	<b>(6,428)</b>	<b>196</b>
Equity raised/(repaid)	4,593	(378)	-	-
Debt raised/(repaid)	1,929	9,567	6,286	-
Dividend (incl. tax)	(240)	(284)	(282)	(284)
<b>Cash flow from fin. (c)</b>	<b>6,282</b>	<b>8,905</b>	<b>6,004</b>	<b>(284)</b>
<b>Net chg in cash (a+b+c)</b>	<b>345</b>	<b>53</b>	<b>(424)</b>	<b>(88)</b>

**Key Ratios**

Yr end 31 Mar (%)	FY10	FY11	FY12E	FY13E
EPS (Rs)	1.3	1.2	(0.6)	0.3
EPS growth	(45.1)	(12.8)	-	-
EBITDA margin	11.8	13.1	12.8	13.0
EBIT margin	9.0	9.8	9.2	9.9
RoCE	8.6	8.6	7.2	8.4
Net debt/Equity	153.3	215.3	270.9	273.2

**Valuations**

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
PER	19.7	22.6	(44.3)	83.8
PCE	8.2	7.2	12.6	8.5
Price/Book	1.1	1.1	1.1	1.1
Yield (%)	1.5	1.5	1.5	1.5
EV/Net sales	1.1	1.2	1.3	1.2
EV/EBITDA	9.2	9.1	10.2	8.9

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
Net margin (%)	2.2	1.7	(0.9)	0.4
Asset turnover	0.6	0.6	0.5	0.6
Leverage factor	4.5	4.6	5.5	5.9
Return on equity (%)	6.5	4.7	(2.4)	1.3

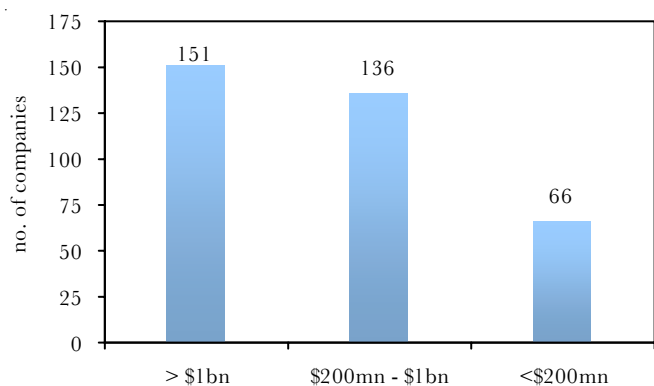
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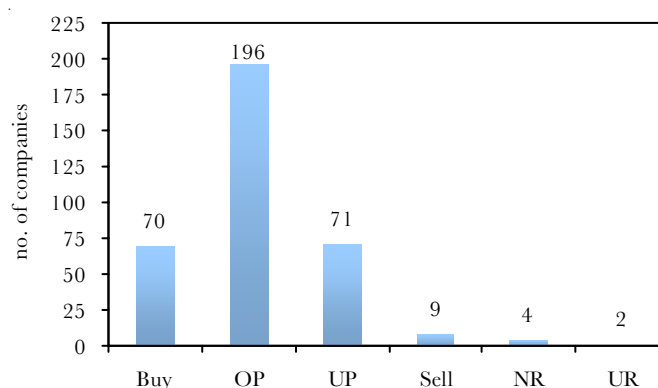
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## B&K Universe Profile

### By Market Cap (US\$ mn)



### By Recommendation



**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)

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