

Madhucon Projects

Performance Highlights

Madhucon Projects (MPL) posted bad set of standalone numbers for 4QFY2010, which were way below our expectations. Top-line witnessed robust growth led by the Power Segment. However, Operating Margins hit historical lows mainly due to heavy sub-contracting done in the Power Segment. We believe that one of the major catalysts to look out for would be the company's Order Inflow - it has started bidding for Road projects - and fund raising plans for Madhucon Infra. **However, we expect the company to face Margin pressure in the near term due to the ongoing heavy sub-contracting owing to which the stock performance would be under pressure.** Hence, the stock is no longer our Top Pick in the Infra Sector. **We maintain a Buy on the stock.**

Margins plunge: For 4QFY2010, Revenues grew a robust 85.5%, which was way beyond our expectation. This was mainly on account of the heavy sub-contracting in the Power Segment and it contributed Rs225cr to the Top-line for the quarter. However, this heavy sub-contracting adversely impacted EBITDA Margins, which plunged to its lowest in the last eight years to 6.4%. The major reason for the sub-contracting was to meet its deadline on the Power front. Going ahead, we expect this trend to continue and hence we are downgrading our Margin estimates.

Outlook and Valuation: MPL's Order Book of Rs4,860cr (around 48% in-house) is diversified across the Power, Irrigation, Road, Real Estate and Mining Segment. This Order Book lends Revenue visibility over the next couple of years. The near-term Revenue visibility comes from the Power Segment, given problems in AP (affecting the irrigation segment) and its higher domination in the order book. We expect MPL to post Top-line and Bottom-line CAGR of 27.3% and 29.8% respectively, over FY2010-12E mainly driven by its current Order Book and Internal order flows. We have valued MPL on SOTP basis. We have valued its Core Construction business at 10x FY2012E Earnings, which is at a discount to its listed peers owing to scale of operations and heavy dependence on internal orders, contributing Rs98.4/share to our Target Price. The company's stake in Madhucon Infra has been valued on P/BV basis and fetches Rs88.1/share. We continue to value MPL's land parcel at 50% discount to the acquisition cost, and it contributes Rs3.6/share. We maintain a Buy on the stock, with a revised SOTP Target Price of Rs190 (Rs214).

Key Financials (Standalone)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	1,025	1,308	1,701	2,120
% chg	38.9	27.5	30.1	24.6
Net Profit	46.9	43.2	47.7	72.8
% chg	(0.7)	(7.8)	10.4	52.7
FDEPS (Rs)	6.3	5.8	6.4	9.8
EBITDA Margin (%)	12.1	10.3	8.9	9.8
P/E (x)	25.3	27.4	24.8	16.3
RoE (%)	9.1	7.8	8.0	11.2
RoCE (%)	10.3	9.7	9.2	11.0
P/BV (x)	2.2	2.1	1.9	1.7
EV/Sales (x)	1.4	1.1	1.0	0.8
EV/EBITDA (x)	11.5	11.0	11.5	8.6

Source: Company, Angel Research

BUY

CMP	Rs160
Target Price	Rs190

Investment Period	12 Months
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Stock Info

Sector	Infrastructure
Market Cap (Rs cr)	1,183
Beta	0.8
52 WK High / Low	198/38
Avg Daily Volume	64729
Face Value (Rs)	1
BSE Sensex	17,386
Nifty	5,223
Reuters Code	MAPR.BO
Bloomberg Code	MDHPJ@IN

Shareholding Pattern (%)

Promoters	57.7
MF/Banks/Indian FLs	21.0
FII/NRIs/OCBs	14.7
Indian Public	6.6

Abs(%)	3m	1yr	3yr
Sensex	5.4	52.5	23.5
MPL	(5.1)	294.2	60.0

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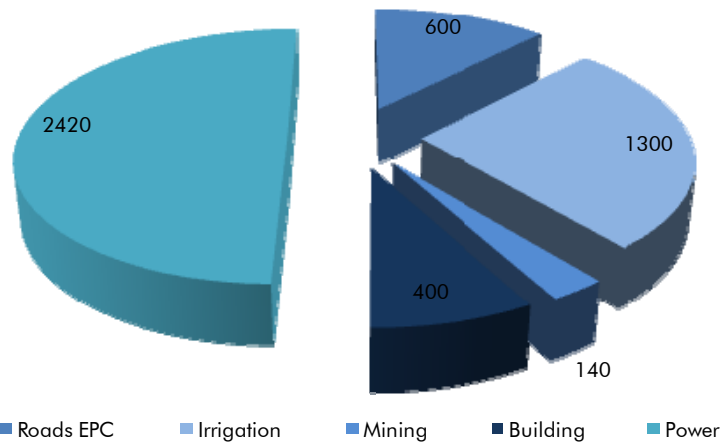
Exhibit 1: 4QFY2010 Performance (Standalone)

Y/E March (Rs cr)	4QFY10	4QFY09	% Chg	FY10	FY09	% Chg
Net Sales	486.4	262.1	85.5	1,307.6	1,025.4	27.5
Total Expenditure	455.5	238.0	91.3	1,173.4	901.5	30.2
Operating Profit	30.9	24.1	28.3	134.2	124.0	8.3
OPM (%)	6.4	9.2	280bp	10.3	12.1	180bp
Interest	7.8	3.2	143.6	25.8	26.6	(2.8)
Depreciation	11.8	10.0	17.5	44.9	43.3	3.5
Non Operating Income	0.2	6.9	(96.6)	4.6	19.1	(75.9)
Nonrecurring items	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	11.5	17.7	(35.0)	68.1	73.1	(6.8)
Tax	4.6	9.8	(53.3)	24.9	26.2	(5.0)
Reported PAT	6.9	7.8	(12.2)	43.2	46.9	(7.8)
PAT (%)	1.4	3.0	(160bp)	3.3	4.6	(130bp)
Adjusted PAT	6.9	7.8	(12.2)	43.2	46.9	(7.8)
Adj. PAT (%)	1.4	3.0	(160bp)	3.3	4.6	(130bp)
Adj. FDEPS	0.9	1.1	(12.2)	5.8	6.3	(7.8)

Source: Company, Angel Research

Order Book Analysis

MPL has an Order Book backlog of Rs4,860cr, spread across the Power (49.8%), Irrigation (26.7%), Road (12.3%), Real Estate (8.2%) and Mining Segments (2.9%). The average execution period of the Order Book is 36 months. Majority of the orders are from the company's own SPVs (around 48%). We do not expect the recently bagged orders from the Power Segment of Rs1,200cr to start contributing to Revenues in the near term, and would depend on the money raising schedule of the company (via private equity).

Exhibit 2: Order Book Break-up


Source: Company, Angel Research

MPL has started bidding for the Road projects and we expect it to bag orders worth Rs800-1,000cr over the next couple of months, which would enhance Revenue visibility given the current low Order Book-to-Sales (2.2x FY2011 Revenues), (excluding Rs1,200cr worth of Orders from the Power segment) ratio and heavy dependence on the Power Segment.

Outlook and Valuation

After disappointing 4QFY2010 results and consistent delays in the company's fund raising schedule, we have revised our estimates downwards factoring in: 1) lower EBITDA Margins given high sub-contracting, and 2) higher holding company discount (20% against earlier 10%) for valuing Subsidiary, Madhucon Infra. Hence, our SOTP Target Price stands 11% lower at Rs190 (Rs214)

Exhibit 3: Revision in Estimates

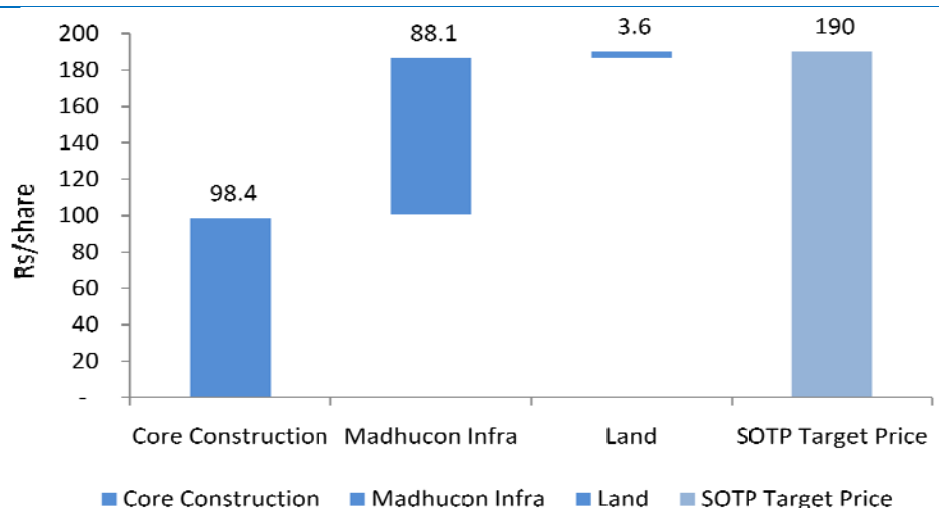
Particulars (Rs cr)	Old Estimate		New Estimate		%/bp change	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Revenue	1,594	1,955	1,701	2,120	6.7	8.4
EBITDA Margins	12.1	11.3	8.9	9.8	(319.0)	(152.0)
PAT	75.7	81.9	48	73	(37.0)	(11.1)

Source: Angel Research

MPL's Order Book of Rs4,860cr lends Revenue visibility over the next couple of years. However, near-term Revenue visibility which comes from the Power Segment given problems in AP (affecting the irrigation segment) and its higher domination in the order book.

We expect MPL to post Top-line and Bottom-line CAGR of 27.3% and 29.8% respectively, over FY2010-12E mainly driven by its current Order Book and Internal order flows. We have valued MPL on SOTP basis, valuing its Core Construction business at 10x FY2012E Earnings, which is at a discount to its listed peers owing to its scale of operations and heavy dependence on internal orders, and fetches Rs98.4/share. The company's stake in Madhucon Infra has been valued on P/BV basis and contributes Rs88.1/share. It should be noted that as of now, equity investments in Madhucon Infra are to the tune of Rs427cr (Road (Rs326cr), Power (Rs83cr) and Coal (Rs18cr)). We expect the company to raise Rs350cr, majorly for its Power Division, and would dilute 30% stake for the same. We estimate Madhucon Infra to get market cap of Rs1,165cr (at 1.5x post-Money Net worth). On this market cap, we have value MPL's stake (70%) at Rs652cr, by assigning 20% holding company discount. Therefore, MPL's stake in Madhucon Infra post dilution would contribute Rs88.1/share to our Target Price. However, it should be noted here that the company plans to raise the same sum (Rs350cr) at much lesser dilution. We continue to value its land parcel at 50% discount to the acquisition cost, and it contributes Rs3.6/share. **We maintain a Buy on the stock, with a revised SOTP Target Price of Rs190 (Rs214).**

Exhibit 4: SOTP Chart



Source: Company, Angel Research

Profit & Loss Statement (Standalone)

(Rs cr)

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	510	738	1,025	1,308	1,701	2,120
Other operating income	-	-	-	-	-	-
Total operating income	510	738	1,025	1,308	1,701	2,120
% chg	49.1	44.7	38.9	27.5	30.1	24.6
Total Expenditure	433	631	901	1,173	1,550	1,913
Net Raw Materials	347	504	706	1,034	1,221	1,495
Other Mfg costs	33	73	118	-	201	255
Personnel	18	27	43	45	70	91
Other	34	27	35	94	58	72
EBITDA	77	107	124	134	152	207
% chg	60.9	39.6	15.5	8.3	12.9	36.8
(% of Net Sales)	15.1	14.5	12.1	10.3	8.9	9.8
Depreciation & Amortisation	24	34	43	45	49	59
EBIT	53	73	81	89	102	148
% chg	72.3	38.4	9.9	10.9	14.4	44.9
(% of Net Sales)	10.4	9.9	7.9	6.8	6.0	7.0
Interest & other Charges	11	16	27	26	41	51
Other Income (incl pft from Ass/JV)	15.6	12.6	19.1	4.6	10.0	12.0
(% of PBT)	27.1	18.2	26.1	6.8	14.0	11.0
Recurring PBT	57	70	73	68	71	109
% chg	56.8	21.2	5.2	(6.8)	4.5	52.7
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	57	70	73	68	71	109
Tax	16	18	26	25	24	36
(% of PBT)	27.6	25.4	35.6	36.6	33.0	33.0
PAT (reported)	42	52	47	43	48	73
Add: Share of earnings of associate	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	42	52	47	43	48	73
ADJ. PAT	42	47	47	43	48	73
% chg	42.0	13.2	(0.7)	(7.8)	10.4	52.7
(% of Net Sales)	8.2	6.4	4.6	3.3	2.8	3.4
Basic EPS (Rs) (Reported)	5.6	7.0	6.4	5.8	6.4	9.8
Fully Diluted EPS (Rs) (Diluted)	5.6	6.4	6.3	5.8	6.4	9.8
% chg	25.3	13.2	(0.7)	(7.8)	10.4	52.7

Balance Sheet (Standalone)
(Rs cr)

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	7.4	7.4	7.4	7.4	7.4	7.4
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	440.5	485.2	528.6	567.5	610.9	679.6
Shareholders Funds	447.9	492.6	536.0	574.9	618.3	687.0
Minority Interest	-	-	-	-	-	-
Total Loans	201.2	196.2	319.9	380.0	628.4	739.0
Deferred Tax Liability	7.6	12.2	12.4	12.4	12.4	12.4
Total Liabilities	656.7	701.0	868.3	967.4	1,259.1	1,438.4
APPLICATION OF FUNDS						
Gross Block	293.6	378.8	461.5	546.5	641.5	761.5
Less: Acc. Depreciation	98.0	130.8	173.1	218.0	267.3	326.5
Net Block	195.6	248.0	288.4	328.6	374.2	435.0
Capital Work-in-Progress	-	-	-	-	-	-
Investments	231.1	299.7	372.8	372.8	372.8	372.8
Current Assets	581.6	708.6	715.0	869.3	1,286.2	1,722.9
Inventories	71.9	113.5	51.7	130.8	166.8	212.0
Sundry Debtors	147.6	92.2	87.8	125.4	233.0	348.5
Cash	138.1	101.6	84.8	90.1	69.8	144.8
Loans & Advances	222.7	401.2	490.8	523.0	816.6	1,017.6
Other	1.4	-	-	-	-	-
Current liabilities	351.6	555.3	507.8	603.3	774.1	1,092.3
Net Current Assets	230.0	153.3	207.2	266.0	512.1	630.7
Misc. Exp. not written off	-	-	-	-	-	-
Total Assets	656.7	701.0	868.3	967.4	1,259.1	1,438.4

Cash Flow Statement (Standalone)
(Rs cr)

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax (excluding MI)	57.4	69.5	73.1	68.1	71.2	108.7
Depreciation	23.9	33.9	43.3	44.9	49.3	59.2
Change in Working Capital	(21.0)	(40.2)	70.7	53.5	266.4	43.5
Less: Other income	15.6	12.6	19.1	4.6	10.0	12.0
Direct taxes paid	15.8	22.3	26.0	24.9	23.5	35.9
Cash Flow from Operations	70.9	108.8	0.7	29.9	(179.4)	76.5
(Inc.)/ Dec. in Fixed Assets	(104.6)	(85.3)	(82.7)	(85.0)	(95.0)	(120.0)
(Inc.)/ Dec. in Investments	(229.8)	(68.6)	(73.1)	-	-	-
Other income	15.6	12.6	19.1	4.6	10.0	12.0
Cash Flow from Investing	(318.8)	(141.2)	(136.7)	(80.4)	(85.0)	(108.0)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	97.7	(5.0)	123.7	60.1	248.4	110.7
Dividend Paid (Incl. Tax)	4.2	2.6	3.5	4.3	4.3	4.2
Others	4.0	3.0	(1.0)	-	-	-
Cash Flow from Financing	97.6	(4.6)	119.2	55.8	244.0	106.5
Inc./(Dec.) in Cash	(150.4)	(37.0)	(16.8)	5.3	(20.3)	75.0
Opening Cash balances	288.9	138.5	101.5	84.7	90.1	69.7
Closing Cash balances	138.5	101.5	84.7	90.1	69.7	144.7

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	28.4	25.1	25.3	27.4	24.8	16.3
P/CEPS	18.1	14.6	13.1	13.4	12.2	9.0
P/BV	2.6	2.4	2.2	2.1	1.9	1.7
Dividend yield (%)	0.6	0.4	0.5	0.3	0.3	0.3
EV/Sales	2.4	1.7	1.4	1.1	1.0	0.8
EV/EBITDA	16.2	11.9	11.5	11.0	11.5	8.6
EV / Total Assets	1.9	1.8	1.6	1.5	1.4	1.2
Per Share Data (Rs)						
EPS (Basic)	5.6	7.0	6.4	5.8	6.4	9.8
EPS (fully diluted)	5.6	6.4	6.3	5.8	6.4	9.8
Cash EPS	8.9	11.0	12.2	11.9	13.1	17.8
DPS	1.0	0.6	0.8	0.5	0.5	0.5
Book Value	60.5	66.5	72.4	77.7	83.5	92.8
Dupont Analysis						
EBIT margin	10.4	9.9	7.9	6.8	6.0	7.0
Tax retention ratio	0.7	0.7	0.6	0.6	0.7	0.7
Asset turnover (x)	1.0	1.3	1.5	1.6	1.6	1.7
ROIC (Post-tax)	7.4	9.8	7.5	6.8	6.6	8.0
Cost of Debt (Post Tax)	4.0	6.2	6.6	4.7	5.5	5.0
Leverage (x)	0.1	0.2	0.3	0.5	0.7	0.9
Operating ROE	7.9	10.4	7.8	7.8	7.5	10.6
Returns (%)						
ROACE (Pre-tax)	8.1	10.8	10.3	9.7	9.2	11.0
Angel ROIC (Pre-tax)	10.2	13.1	11.7	10.8	9.9	11.9
ROAE	9.3	10.0	9.1	7.8	8.0	11.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.7	2.2	2.4	2.6	2.9	3.0
Inventory / Sales (days)	51	46	29	25	32	33
Receivables (days)	106	59	32	30	38	50
Payables (days)	312	251	187	184	193	133
Working capital cycle (ex-cash) (days)	66	36	31	42	66	80
Solvency ratios (x)						
Net debt to equity	0.1	0.2	0.4	0.5	0.9	0.9
Net debt to EBITDA	0.8	0.9	1.9	2.2	3.7	2.9
Interest Coverage (EBIT / Interest)	4.7	4.5	3.0	3.5	2.5	2.9

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Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section).

Disclosure of Interest Statement	Madhucon Projects
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	Yes
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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