



Hindustan Construction Company – Losses continue to mount

Result Analysis

- **Sales decline by 9%; order inflows dry down:** Company's sales de-grew by 8.4% y-o-y to ₹9,694mn below our as well as street expectations on the back delay in project executions. The company's order book stands at ₹150.0bn (40% hydro, 24% transport, 22% water and 14% nuclear and others), while there were no order inflows for 1QFY13. The outlook remains bleak as industrial capex has slowed down and also many projects are facing execution issues on account of which top-line is likely to be hit badly.
- **Operating profit dip by 590bps y-o-y and 40bps q-o-q:** During 1QFY13, the company's operating profit declined by 49.9% y-o-y to ₹691mn, while the operating margin declined by 590bps y-o-y and 40bps q-o-q to 7.1%. The decline was mainly due to lower top-line and higher raw material expenses.
- **Operating profits and interest costs continue to lead to losses:** Company reported a net loss of ₹310mn during 1QFY13 due to lower sales, bad operating performance and interest costs. Interest cost rose by 37.5% y-o-y to ₹1,282 mn. The management expects the company to be out of red by end FY13.
- **Approval of Corporate Debt Restructuring – the only positive surprise:** The Corporate Debt Restructuring Empowered Group has approved the restructuring of its debt of ~₹32bn which might bring down the interest costs and improve cash flow. The key terms of the CDR package are:-
 - Principal moratorium of 2 years and structured repayment of 8 years of restructured term loans
 - Softening of interest rates and need based additional working capital would be sanctioned by the existing bankers.

Other Key Highlights:

- **Karl Steiner AG; another quarter of strong order inflows:** The Company has a strong order backlog of CHF.1.5bn (₹87.2bn) while the Company reported a turnover of CHF202.6mn (~₹11.8bn) and inflows to the tune of ~CHF192 mn(₹11.6bn).
- **HCC Infrastructure:** The Company won a six laning project between Vadodara-Surat junction with and total project cost of ~₹14bn with a concession period of 12 years. Execution of West Bengal projects (NH34) underway and is ~30% complete.

Outlook and Valuations:

HCC has been hit across all fronts top-line, operating as well as profitability on account of dip in order inflows, slower execution of the projects and rising costs; Profitability has been hit badly on account of bad operating performance and interest costs. The outlook for order inflows and execution remains bleak and is likely to hit company's overall performance badly. The CDR package approval is likely to lower the interest burden and improve cash flows; however if the current pace of project execution continues the effects will be negated. Factoring in a) muted order inflows b) continued slower execution performance and increasing levels of debt we revise our top-line estimates downwards ~by 7% and 6% to ₹39,202mn and ₹41,959mn for FY13 & FY14 respectively and expect the company to report a net loss of ₹1,856mn and ₹1,305mn.(Earlier estimates loss 1345mn and ₹819mn for FY13 and FY14 respectively.)

Infrastructure segment has been marred from all fronts and we do not foresee the situation improving in the near term. HCC has not only seen a dip in its top-line but also on the operating parameter front which coupled with high debt burden is impacting the bottom-line and hence we maintain our "Hold rating" on the stock. At the CMP, the stock trades at 1.1x FY14E P/B and 13.5x FY14E EV/EBITDA.

Financial Snapshot (₹ mn)

In ₹ mn	Sales	YoY (%)	EBITDA	YoY (%)	Net Profit	YoY (%)	EPS (₹)	YoY (%)	EBITDA %	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)
FY12	39,882	(2.6)	4,396	(19.0)	(2,224)	-	-	-	11.0	-	7.2	-	0.8
FY13E	39,202	(1.7)	3,724	(15.3)	(1,856)	-	-	-	9.5	-	3.9	-	1.0
FY14E	41,959	7.0	4,112	10.0	(1,305)	-	-	-	9.8	-	5.0	-	1.1

Source: Company, ABML Research

Rating	Closing Price (₹)	Target Price (₹)	Upside %
Hold	17.6	20.1	14.2

Source: ABML Research

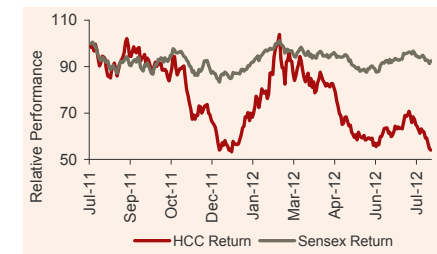
Company Data	
BSE Code	500185
NSE Code	HCC
Equity Capital (₹ mn)	606.6
Face Value (₹)	1
Market Cap (₹ mn)	10,676
Avg Daily Volume (Qty)	38,24,947
52 week H/L (₹)	33/16

Source: NSE, BSE

Shareholding (%)			
Holders	Jun 12	Mar 12	Dec 11
Promoters	39.9	39.9	39.9
FII's	23.0	24.4	24.3
MFs/Banks & FI's	5.0	4.8	3.7
Public & Others	32.1	30.9	32.1

Source: BSE

Chart: HCC vs. Sensex



Source: Capitaline

Analyst Details

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Quarterly Result Snapshot (Standalone)

In ₹ million	1QFY13	1QFY12	% (YoY)	4QFY12	% (QoQ)
Net sales	9,694	10,579	(8.4)	11,667	(16.9)
Total expenses	9,004	9,201	(2.1)	10,788	(16.5)
EBIDTA	691	1,378	(49.9)	878	(21.4)
EBITDA %	7.1	13.0	7.5	(590bps)	(40bps)
Depreciation	405	392	3.3	402	0.7
Non-operating income	515	7	271	-	-
EBIT	800	993	(19.4)	748	7.1
Interest	1,282	933	1,509	37.5	(15.1)
Exceptional items	40	0	10	-	-
PBT	(442)	61	(771)	-	-
(-) Tax	(132)	33	(210)	-	-
PAT	(310)	28	(561)	-	-

Source: ABML Research, company data

SOTP Valuation

₹ mn	Value	Multiple/discount	₹ / share
Core construction	-	-	0.0
Road Bot projects	16,552	35% discount to Xander deal	15.2
247 business park (Vikroli (W))	1,001	as per IL&FS transaction	1.7
Lavasa	5,100	40% discount to equity	3.3
Total (₹)			20.1

Recommendation summary

Date	Reports	Rating	Last Closing Price (₹)	Target Price (₹)	Upside / (Downside) %
29-Nov-10	Event Update	Buy	40.0	78.9	97.3
25-Jan-11	Result Update (Q3FY11)	Under Review	41.9	-	-
01-Nov-11	Result Update (Q2FY12)	Under Review	27.8	-	-
04-May-12	Result Update (Q4FY12)	Hold	19.9	20.1	4.0
30-July-12	Result Update (1QFY13)	Hold	17.6	20.1	14.2

Source: ABML Research

Financials Snapshot (Standalone)

Profit & Loss					Balance Sheet				
In ₹ mn	FY11	FY12	FY13E	FY14E	In ₹ mn	FY11	FY12	FY13E	FY14E
Net sales	40,932	39,882	39,202	41,959	Equity capital	607	607	607	607
YoY (%)	12.3	(2.6)	(1.7)	(7.0)	Reserves	14,615	12,394	10,539	9,234
Total expenses	35,534	35,486	35,478	37,847	Net worth	15,222	13,001	11,145	9,840
Raw material cost	11,973	10,897	12,231	13,091	Preference capital	0	0	0	0
Sub-contractor & other Charges	16,993	18,761	15,210	16,154	Total borrowings	34,714	46,291	47,419	46,803
Employee expenses	4,676	4,392	4,116	4,406	Deferred tax	1,665	702	702	702
Other expenses	1,892	1,436	3,920	4,196	Total liabilities	51,601	59,994	59,266	57,346
EBIDTA	5,398	4,396	3,724	4,112	Net Block	11,843	11,244	11,831	11,197
YoY (%)	22	(19)	(15)	10	Investments	5,313	5,847	6,076	5,455
EBIDTA (%)	13.2	11.0	9.5	9.8	Capital WIP	257	258	314	336
Depreciation	1,527	1,621	1,864	1,893	Current assets	60,960	71,528	86,154	62,775
Non-operating income	145	1,228	235	252	Current liab. & Provn.	26,722	28,884	45,109	22,416
EBIT	4,016	4,003	2,095	2,470	Net current assets	34,188	42,644	41,045	40,359
Interest	2,899	5,431	4,825	4,389	Miscellaneous expenses	0	0	0	0
Extraordinary income/(expenses)	0	0	0	0	Total assets	51,601	59,994	59,266	57,346
PBT	1,117	(3,187)	(2,730)	(1,919)					
(-) Tax	407	(962)	(873)	(614)					
Tax/ PBT (%)	36.4	30.2	32.0	32.0					
PAT	710	(2,224)	(1,856)	(1,305)					

Key Ratios					Cash Flow				
	FY11	FY12	FY13E	FY14E	In ₹ mn	FY11	FY12	FY13E	FY14E
EPS (₹)	2.3	0.0	0.0	0.0	Net profit before tax	1,117	(3,185)	(2,730)	(1,919)
Adjusted EPS (₹)	2.3	0.0	0.0	0.0	Depn and w/o	1,527	1,621	1,864	1,893
CEPS (₹)	3.7	0.0	0.0	1.0	Others	2,849	4,419	-	-
Book value (₹)	25.1	21.4	18.4	16.2	Change in working cap	(4,772)	(1,954)	1,218	1,170
Dividend per share (₹)	0.5	0.0	0.0	0.0	Direct tax	(819)	(101)	873	614
Debt-equity (x)	2.3	3.6	3.7	4.1	Operating cash flow	(98)	801	1,226	1,758
ROE (%)	4.7	0.0	0.0	0.0					
ROCE (%)	8.6	7.2	3.7	4.8	Capex	(2423)	(1962)	(2451)	(1259)

Valuations				
	FY11	FY12	FY13E	FY14E
PE (x)	15.0	0.0	0.0	0.0
Cash PE (x)	4.8	0.0	0.0	18.1
Price/book value (x)	0.7	0.8	1.0	1.1
Dividend yield (%)	2.7	0.0	0.0	0.0
M.cap/sales	0.3	0.3	0.3	0.3
EV/sales (x)	1.1	1.4	1.4	1.3
EV/EBITDA (x)	8.1	12.6	15.3	13.5

Source: ABML Research, company data

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ABML research is also accessible in Bloomberg at ABMR

Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq 5\%$
Sell	$R \leq -10\%$

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Analyst holding in the stock: NIL