

Hindustan Construction (HINCON)

₹ 20

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 20 to ₹ 17
EPS (FY13E)	Changed from ₹ -0.4 to ₹ -1.9
EPS (FY14E)	Introducing at ₹ 0.4
RATING	Unchanged

And the sad tale continues...

HCC's Q4FY12 performance was dismal led by poor EBITDA margins (7.6% vs. our expectation of 12%) and higher net interest cost (₹ 122.8 crore vs. our estimates of ₹ 109.9 crore). Consequently, the company reported a loss of ₹ 54.2 crore vs. our estimates of ₹ 22.2 crore. During the quarter, HCC has also applied for CDR cell for re-alignment of debt wherein the company is looking to apply for repayment structure of (2+8) wherein it is seeking 2 years of moratorium and 8 years of repayment period as well as marginal reduction in interest rates. With EPC business remaining a drag, Lavasa sales & execution pick yet to be seen and CDR issue is pending, we assign a SELL rating on the stock.

■ Poor margin show...

HCC topline came at ₹ 1155.7 crore came higher than our estimates of ₹ 1057.9 crore. It, however, reported net losses of ₹ 54.2 crore vs. our expectations of ₹ 22.2 crore in Q4FY12 mainly due to lower margins (7.6% vs. our expectation of 12%) and higher net interest cost (₹ 122.8 crore vs. our estimates of ₹ 109.9 crore).

■ Debt Restructuring on the cards

The Board has approved for re-alignment of debt of HCC through CDR process. The same has been referred to CDR cell and consequently the proposal has been admitted. The company is looking to apply for repayment structure of (2+8) wherein it is seeking 2 years of moratorium and 8 years of repayment period. It is also looking for marginal reduction in interest rates as well as additional working capital. HCC expects decision on the same in next couple of months.

■ Operating profits not enough to serve debts...

The net Interest expenses at ~140% of EBITDA means that the operating profits are not enough to service debts. With the stretched working capital, lower operating margin and execution rate yet to pick up, HCC's EPC business remains a major drag and a reason for concern.

Valuation

At the CMP, the stock is trading at 1.2x FY13 P/BV. With the EPC business remaining a major drag due to stretched working capital, sluggish execution, and clarity on debt restructuring yet to emerge, we believe that stock would continue to remain under pressure. We have assigned a SELL rating to the stock with a target price of ₹ 17/share.

Exhibit 1: Financial Performance

₹ crore	Q4FY12	Q4FY12E	Q4FY11	Q3FY12	YoY Gr (%)	QoQ Gr (%)
Net sales	1155.7	1057.9	1202.1	946.0	-3.9	22.2
EBITDA	87.8	127.1	166.2	110.5	-47.2	-20.5
EBITDA Margin (%)	7.6	12.0	13.8	11.7	-622.6 bps	-407.6 bps
Depreciation	40.2	42.0	44.0	41.2	-8.5	-2.5
Net Interest	122.8*	109.9	90.3	104.3	36.1	17.7
Reported PAT	-54.2	-22.2	22.6	-130.4		
Adjusted PAT	-54.8	-22.2	15.2	-24.8		

Source: Company, ICICIdirect.com Research

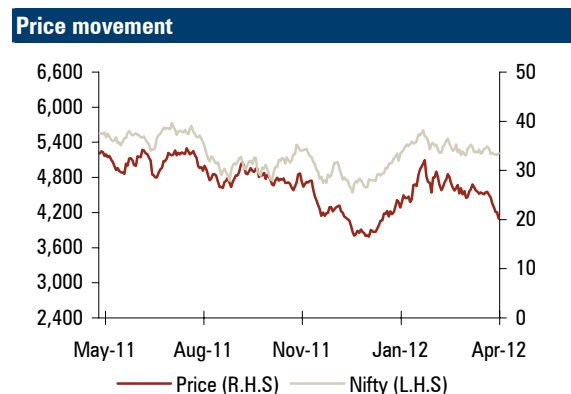
*adjusted for other income

Rating matrix	
Rating	: Sell
Target	: ₹ 17
Target Period	: 12-15 months
Potential Upside	: -15%

Key Financials				
₹ crore	FY11	FY12E	FY13E	FY14E
Net sales	4093.2	3988.2	4527.3	5688.2
EBITDA	544.3	429.9	509.8	669.0
Adj. Net profit	68.7	-114.3	-112.5	25.6

Valuation summary				
	FY11	FY12E	FY13E	FY14E
EPS (₹)	1.1	-1.9	-1.9	0.4
PE(x)	17.3	NA	NA	48
EV/EBITDA(x)	8.3	12.5	11.1	8.9
P/BV(x)	0.8	0.9	1.0	1.0
RoNW(%)	4.7	-15.7	-9.0	2.1
RoCE(%)	8.7	5.1	6.0	8.6

Stock data	
Market Capitalisation	₹ 1228 crore
Debt	₹ 4300 crore
Cash	₹ 160 crore
EV	₹ 5368 crore
52 week H/L	37/16
Equity capital	₹ 61 Crore
Face value	₹ 1.0
DII Holding (%)	4.8
FII Holding (%)	24.4



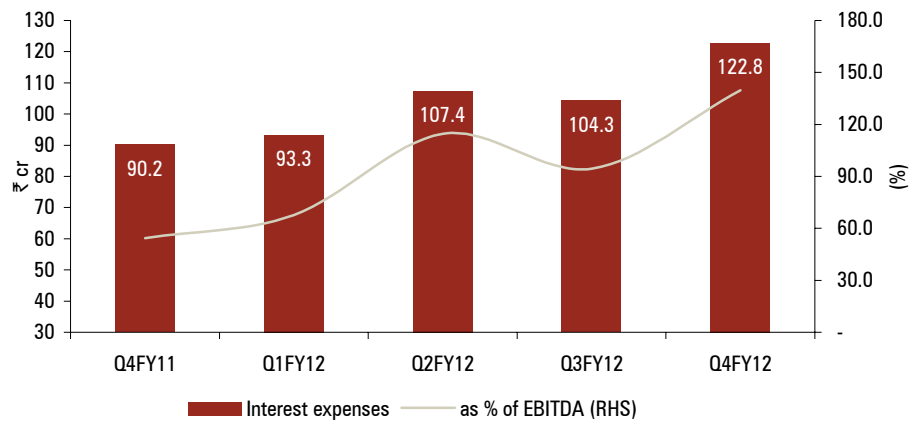
Analyst's name	
Deepak Purswani, CFA	deepak.purswani@icicisecurities.com
Bhupendra Tiwary	bhupendra.tiwary@icicisecurities.com

Another poor show in Q4FY12

- HCC's Q4FY12 was dismal on account of cost pressure, competitiveness impacting the margins and high interest cost eating away the bottomline.
- In terms of topline, the company reported ~₹ 1156 crore against our estimate of ₹ 1058 crore
- The EBITDA margin came at 7.6% vs. 11.7% in Q3FY12, (much lower than our estimate of 12%) mainly due to rise in raw material price and competitive pressures
- HCC reported a loss of ₹ 54.2 crore vs. vs. our expectations of ₹ 22.2 crore in Q4FY12 mainly due to lower margins and higher interest cost.
- The net interest expenses at ₹ 122.8 crore went up by ~36% YoY on account of a rise in borrowing, interest rates and higher utilisation of CC limit during the quarter. Also, the company changed its reporting structure wherein HCC reports gross interest expenses under interest cost and interest income is shown as other income

The net interest expenses at ₹ 122.8 crore saw a substantial jump of ~36% YoY on the back of higher debt level and increased interest rates

Exhibit 2: Operating profits not sufficient to serve debts....resulting into cash loss



Source: Company, ICICIdirect.com Research

Steiner going strong...

HCC's Swiss subsidiary Steiner AG continued to perform decently. The company reported a topline of CHF 728 million (₹ 3996.2 crore) and PAT of CHF 2.9 million (₹ 15.8 crore). The company's closing order backlog at CHF 1.51 billion (₹ 8,288 Cr) excluding contracts of CHF 135 million (₹ 741 Cr) yet to be signed.

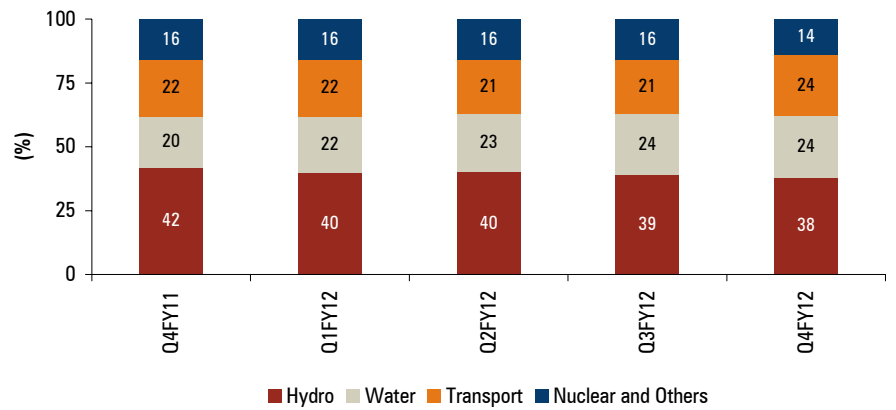
Order inflow for the year stood at CHF 1.2 billion (₹ 6,587 Cr). Some of the key projects undertaken by Steiner include, Post Parc (CHF 159 million), Mehr als Wohnen (CHF 145 million) & Lindbergh Allee total services contract (CHF 125 million).

Order inflow of ₹ 1889 crore in FY12

HCC has bagged orders worth ~₹ 1889 crore during the year and removed the contentious order of Sawalkot project (₹ 1940 crore) from its order book due to lack of clarity on the same. During the quarter, the company did not receive any orders.

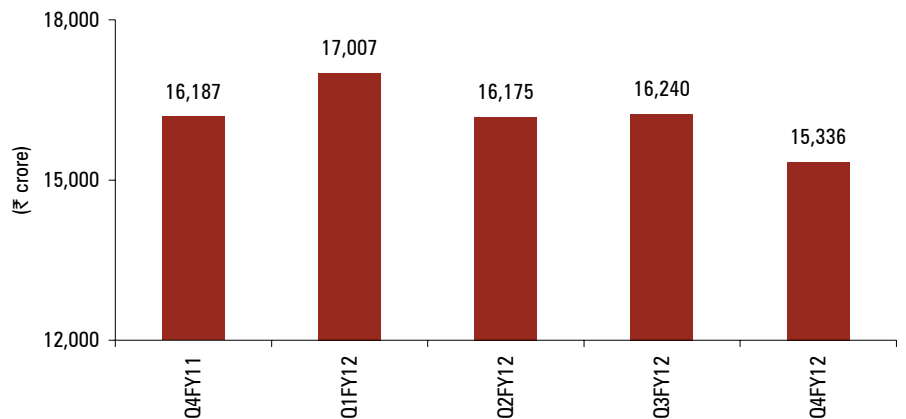
The order book stood at ₹ 15336 crore, implying an order book to bill ratio of 3.8x on a TTM basis.

Exhibit 3: Segment-wise order book break-up



Source: Company, ICICIdirect.com Research

Exhibit 4: Order book trend



Source: Company, ICICIdirect.com Research

Launch of second town of Mugaon in April...

Lavasa has launched 2nd town Mugaon in April wherein 5 buildings were released for sales. HCC is hopeful of pushing up sales volume from the project going ahead.

After putting it on hold for a year, MoEF had accorded conditional approval to Lavasa Corporation for the development of phase I at Lavasa during Q3FY12. Phase I development involves development of 2000 hectares (residential – 618.2 hectares), commercial - 33.7 hectares, hotels -72.8 hectares, institutional – 207 hectares, open space – 908 hectares and other activities – 209 hectares). However, we would like to see further progress at Lavasa in terms of development and debt restructuring.

HCC bagged orders worth ~₹ 1889 crore in FY12 and removed the contentious Sawalkot project orders worth ₹ 1940 crore

Valuation

We have revised our FY13 earning estimates downwards from ₹ - 0.4/share to ₹ -1.9/share to incorporate slower revenue growth and lower margins going ahead as guided by the management. We introduce FY14 EPS in this note and we expect it to turn positive at ₹ 0.4 per share.

At the CMP, the stock is trading at 1.2x FY13 P/BV. With the EPC business remaining a major drag due to stretched working capital, sluggish execution, and clarity on debt restructuring yet to emerge, we believe that stock would continue to remain under pressure. We have assigned a **SELL** rating to the stock with a target price of ₹ 17/share.

We have assigned a **SELL** rating on the stock with a price target of ₹ 17 per share

Exhibit 5: Valuation Table

Entity	Value (₹ crore)	Per share ₹	Comment
Core Construction	3,059.0	50	6x FY13 EV/EBITDA
KSAG acquisition	247.5	4	1x Price/Book
Real Estate	906.0	15	HCC stake have been valued on NAV basis (40% discount to NAV) and recent transaction in Vikhroli IT park
Road BOTs	1,273.7	21	10% discount to Xander deal valuation
Less:Net Debt	4,449.6	73	
Fair Value		17	

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

(₹ Crore)	FY11	FY12E	FY13E	FY14E
Total operating Income	4,093.2	3,988.2	4,527.3	5,688.2
Growth (%)	12.3	-2.6	13.5	25.6
Op. Expenditure	3,548.8	3,558.3	4,017.5	5,019.2
EBITDA	544.3	429.9	509.8	669.0
Growth (%)	17.6	-21.0	18.6	31.2
Depreciation	152.7	162.1	168.8	177.8
EBIT	391.7	267.8	341.0	491.2
Interest	292.0	456.0	467.1	465.4
Other Income	12.0	36.1	13.6	17.1
Extraordinary Item	0.0	-166.3	0.0	0.0
PBT	111.7	-318.4	-112.5	42.9
Tax	40.7	-96.2	0.0	17.3
Rep. PAT before MI	71.0	-222.1	-112.5	25.6
Minority Interest (MI)	0.0	0.0	0.0	0.0
Rep. PAT after MI	71.0	-222.1	-112.5	25.6
Adjustments	2.3	-107.8	0.0	0.0
Adj. Net Profit	68.7	-114.3	-112.5	25.6
Growth (%)	-27.9			
EPS (₹)	1.1	-1.9	-1.9	0.4

Source: Company, ICICIdirect.com Research

Balance sheet

(₹ Crore)	FY11	FY12P	FY13E	FY14E
Liabilities				
Equity Capital	60.7	60.7	60.7	60.7
Reserves & Surplus	1,461.5	1,239.4	1,126.9	1,142.0
Shareholder's Fund	1,522.2	1,300.1	1,187.6	1,202.7
Borrowings	1,535.3	2,269.1	2,269.1	2,269.1
Unsecured Loans	1,936.1	2,031.7	2,271.7	2,271.7
Deferred Tax Liability	166.5	70.2	70.2	70.2
Source of Funds	5,160.1	5,671.1	5,798.6	5,813.7
Assets				
Gross Block	1,965.2	2,059.2	2,159.2	2,259.2
Less: Acc. Depreciation	790.1	944.9	1,107.4	1,277.8
Net Block	1,175.1	1,114.3	1,051.8	981.5
Capital WIP	25.7	25.7	25.7	25.7
Net Fixed Assets	1,200.8	1,140.0	1,077.5	1,007.2
Intangible Assets	9.2	10.1	9.9	8.4
Investments	531.3	584.7	684.7	734.7
Cash	193.7	160.0	91.1	-217.2
Trade Receivables	2.7	1,177.7	1,240.2	1,453.1
Loans & Advances	1,394.8	1,917.6	2,115.7	2,452.1
Inventory	4,499.1	3,755.4	4,169.2	4,853.0
Total Current Asset	6,096.0	7,052.8	7,665.6	8,598.7
Current Liab. & Prov.	2,677.2	3,116.6	3,639.1	4,535.3
Net Current Asset	3,418.8	3,936.2	4,026.5	4,063.4
P&L Account	0.0	0.0	0.0	0.0
Application of Funds	5,160.1	5,671.1	5,798.7	5,813.8

Source: Company, ICICIdirect.com Research

Cash flow statement

(₹ Crore)	FY11	FY12E	FY13E	FY14E
Net Profit before Tax	111.7	-318.4	-112.5	42.9
Other Non Cash Exp	0.0	0.0	0.0	0.0
Depreciation	152.7	162.1	168.8	177.8
Direct Tax Paid	-81.9	0.0	0.0	-17.3
Other Items	281.3	456.0	480.7	482.5
CF before change in WC	463.8	299.7	509.8	651.7
Inc./Dec. In WC	-363.5	-551.1	-159.1	-345.2
CF from Operations	100.3	-251.4	350.7	306.5
Pur. of Fix Assets	-233.6	-222.9	-106.0	-106.0
Pur. of Inv	-122.6	53.4	-100.0	-50.0
Others	-339.66	0.0	0.0	0.0
CF from Investing	-695.9	-169.4	-192.4	-138.9
Inc./Dec. in Debt	956.7	829.4	240.0	0.0
Inc./Dec. in Net Worth	0.0	0.0	0.0	0.0
Others	-355.8	-442.3	-467.1	-475.9
CF from Financing	600.9	387.1	-227.1	-475.9
Net Cash Flow	5.3	-33.7	-68.8	-308.3
Opening Cash	188.3	193.7	160.0	91.1
Closing Cash	193.7	160.0	91.1	-217.2

Source: Company, ICICIdirect.com Research

Key ratios

	FY11	FY12E	FY13E	FY14E
Per share data (₹)				
EPS	1.1	-1.9	-1.9	0.4
Cash EPS	3.7	-1.0	0.9	3.4
BV	25.1	21.4	19.6	19.8
DPS	0.4	0.0	0.0	0.1
Cash Per Share	3.2	2.6	1.5	-3.6
Operating Ratios (%)				
EBITDA Margin	13.3	10.8	11.3	11.8
PBT / Total Operating income	2.7	-8.0	-2.5	0.8
PAT Margin	1.7	-5.6	-2.5	0.4
Inventory days	360	378	319	289
Debtor days	0	54	97	86
Creditor days	108	105	96	94
Return Ratios (%)				
RoE	4.7	-15.7	-9.0	2.1
RoCE	8.7	5.1	6.0	8.6
RoIC	8.7	5.1	6.1	8.4
Valuation Ratios (x)				
P/E	17.3	NA	NA	48.1
Net Sales/Total Asset	87.7	73.6	78.9	98.0
EV / EBITDA	8.3	12.5	11.1	8.9
EV / Net Sales	1.1	1.3	1.3	1.1
Price to Book Value	0.8	0.9	1.0	1.0
Solvency Ratios				
Debt/EBITDA	6.4	10.0	8.9	6.8
Debt / Equity	2.2	3.2	3.7	4.0
Current Ratio	2.3	2.3	2.1	1.9

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Construction)

Simplex Infra					Sales (₹ Crore)	EPS (₹)	Adj PE (x)	P/BV(x)	RoNW (%)	RoCE (%)
Idirect Code	SIMCON	CMP	234	FY10	FY10	24.7	9.5	1.2	13.1	12.8
Mcap (₹ crore)	1162	Target	331	FY11	FY11	24.8	9.4	1.1	12.0	11.9
		% Upside	41%	FY12E	FY12E	17.2	13.5	1.0	7.6	10.9
				FY13E	FY13E	27.2	8.6	0.9	11.0	12.2
Unity Infra										
Idirect Code	UNIINF	CMP	49	FY10	1,476.8	11.7	4.2	0.7	17.6	17.6
Mcap (₹ crore)	362	Target	73	FY11	1,701.5	12.7	3.8	0.6	15.5	16.5
		% Upside	50%	FY12E	1,913.4	13.5	3.6	0.5	14.3	17.0
				FY13E	2,197.8	15.6	3.1	0.4	14.5	17.8
IVRCL										
Idirect Code	IVRINF	CMP	62	FY10	5,477.6	7.9	4.9	1.1	11.5	14.3
Mcap (₹ crore)	1649	Target	72	FY11	5,617.4	5.9	6.5	1.0	8.2	11.6
		% Upside	17%	FY12E	5,204.9	2.0	19.1	1.0	2.7	7.3
				FY13E	6,375.1	5.0	7.7	0.9	6.3	9.9
NCC										
Idirect Code	NAGCON	CMP	51	FY10	4,777.8	7.5	2.1	0.6	11.8	12.9
Mcap (₹ crore)	1304	Target	55	FY11	5,073.7	6.4	2.9	0.6	7.1	9.7
		% Upside	8%	FY12E	5,021.9	2.1	11.4	0.7	2.2	7.0
				FY13E	5,740.2	3.8	6.1	0.6	4.0	7.9
Patel Engineering										
Idirect Code	PATEN	CMP	104	FY10	3,190.9	24.2	3.7	0.5	17.8	14.6
Mcap (₹ crore)	728	Target	99	FY11	3,475.9	16.4	5.9	0.5	9.4	10.7
		% Upside	-5%	FY12E	3,307.2	14.3	7.1	0.5	7.1	9.4
				FY13E	3,677.6	11.5	8.8	0.4	5.1	8.1
Hindustan Construction										
Idirect Code	HINCON	CMP	20	FY11	4,093.2	1.1	17.3	0.8	4.7	8.7
Mcap (₹ crore)	1228	Target	17	FY12	3,988.2	-1.9	NA	0.9	-15.7	5.1
		% Upside	-16%	FY13E	4,527.3	-1.9	NA	1.0	-9.0	6.0
				FY14E	5,688.2	0.4	48.1	1.0	2.1	8.6
Supreme Infrastructure										
Idirect Code	SUPINF	CMP	324	FY10	533.3	28.3	9.9	2.7	25.2	16.3
Mcap (₹ crore)	543	Target	316	FY11	917.9	45.4	6.2	1.8	27.0	17.8
		% Upside	-3%	FY12E	1,440.1	53.8	5.2	1.4	24.5	19.5
				FY13E	1,754.3	59.6	4.7	1.1	21.5	20.8

Source: Company, ICICIdirect.com Research

Exhibit 6: Recommendation History



Source: Reuters, ICICIdirect.com Research

Exhibit 7: Recent Releases

Date	Event	CMP	Target Price	Rating
2-May-11	Q4FY11 Result Update	35	38	Hold
29-Jul-11	Q1FY12 Result Update	31		UR
24-Oct-11	Q2FY12 Result Update	26	27	Hold
23-Jan-12	Q3FY12 Result Update	21	20	Hold
3-Apr-12	Q4FY12 Result Preview	26	20	Sell

Source: Company, ICICIdirect.com Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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