

## Madhucon Projects Ltd.

INR 170

*On a Toll-Free Road***ACCUMULATE**

Gateway to Prosperity

Aug 21, 2009

**Company Background**

Madhucon Projects Ltd. (MPL) is a Hyderabad based leading EPC player having almost two decades of experience in executing large civil engineering projects. The company possesses a strong track record of successfully executing projects across State & National highways, bridges, flyovers, irrigation & industrial arena, townships & railways. MPL has ventured into the power sector in Mar'07, by acquiring 48% stake in Simhapuri Energy Private Ltd. & is setting up a 540MW thermal power plant at Krishnapatnam in Andhra Pradesh. Further, the company also forayed into mining space in FY07 post acquiring licenses for coal exploration & extraction across couple of strategic regions in Indonesia.

**Investment Rationale****➔ Financial performance (Standalone basis)**

During 1QFY10, MPL's Net Sales rose by 19% to INR 2848 mn as against 2397 mn, while its Net Profit declined by INR 17 mn to INR 131 mn vs INR 148 mn. Its Total Income were INR 2866 mn as against INR 2405 mn. Historically, MPL's Order Book was mainly dominated by the comparatively low margin Road segment, while on the other hand there has been gradual shift to higher margin segments like Irrigation & Power segment, which would help MPL in maintaining its Profitability Margins.

**➔ Diversify portfolio helping for better returns**

MPL has a good business portfolio, which helps it diversify its risk into various segment. Being a major player in BOT & Irrigation segment which provides with consistent results & cash flows, it is likely to facilitate its future investments into high growth areas like Power & Coal business. Over the last few years, MPL has invested heavily in BOT projects which have now started generating revenues & providing it with better returns.

**➔ Robust Order Book**

MPL has a robust order book of INR 51.5 bn, with outstanding orders in various segments including Irrigation (38%), Roads (33%) mainly Highways & Flyovers, Power (18%) in house orders & Buildings (11%). MPL is also L1 for orders of worth INR 3.9 bn from the Railways. With this robust orders available on the board, it is expected that these orders would provide revenue visibility for the next 3-4 years to come.

**➔ Wide area of experience**

MPL is one of the leading contractors in the area of BOT & EPC, while it has executed wide range of projects in the areas of State & National Highways, Bridges, Flyovers, Irrigation Projects (Dams, Canals, Tunnels) Industrial Projects, Townships, Railway Projects etc. MPL has a rich & varied track record as a premier construction company & has a wide ranging experience in design & execution of huge Civil Engineering projects, both on item rate as well as EPC/BOT basis.

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Reuters	: MAPR.BO
Bloomberg	: MDHPJ@IN
NSE	: MADHUCON
BSE	: 531497

**Market Data**

52 Wk Range (INR)	: 300 / 42
Shares in Issue (mn)	: 37.0
Mkt. Cap (INR bn)	: 6.31
BSE 2 Wk Avg Vol	: 23773

**Share Holding Pattern (%)**

Promoters	: 57.66
MFs, FIs & Banks	: 11.72
FIIIs	: 12.83
Others	: 17.79

**Investment Theme**

MPL is one of the leading EPC & BOT player having wide experience in its related areas. Being a diversified player, it helps to generate consistent revenues even in the days of slowdown. Being an experienced player in BOT & Irrigation segment, MPL is now concentrating & is likely to infuse future capex in Power & Coal business. Till date company has order book of INR 51.5 bn, including Irrigation, Power, Roads & Building and is L1 player for orders from Indian Railways. With The Government, ready with the huge spending during 11<sup>th</sup> Five year plan, it is expected that it would be one of the beneficiaries in terms of getting government road projects.

**Have You BOT it ?**

## Business Verticals

MPL has segmented its entire business portfolio across 8 major verticals to facilitate concentrated working & faster expansion. The company possesses an in-house design, engineering & construction expertise backed by qualified & experienced employee base to execute its projects. MPL even has good mix of assets, which helps it to gain handsome returns & cash flows.

### ➔ BOT projects

MPL has been an early mover in this Segment & has received positive government grant of INR 4.03 bn for all its BOT projects. MPL currently has a portfolio of 4 toll-based Road projects with the total project capitalisation of INR 19.82 bn. However in FY2009, following the run up in the commodity prices MPL was impacted on account of having fixed-priced BOT projects, due to which its expenditure were increased. MPL's Bharatpur-Mahwa project is now operational & generat cash to the tune of INR 0.77 mn per day, while 2 projects are also been expected to get operational by FY2010. Thus overall with this factor, it is expected that with the BOT projects getting operational MPL would receive smooth cash flow helping it to get better returns. Recently the com pany has been awarded a BOT National Highway Project at a cost of INR 3 bn by NHAI for Improvement, Operation & Maintenance of Rehabilitation & strengthening of existing 2-Lane road & widening to 4-Lane divided Highway of KM 63.0 to KM 120.0 of NH-11 in the state of Rajasthan on Build, Operate & Transfer (BOT) basis under NHDP Phase - IIIA. Madhucon is at present executing 4 BOT National Highway Projects as a developer covering 330 KMs. The first project has been successfully completed & collection of toll revenue has commenced.

### ➔ Real Estate

MPL has bought 9.02 acres of land at Kukatpally in Hyderabad through auction from the Hyderabad Urban Development Authority for around INR 45 mn per acre in FY07. It has planned to develop around 2.1 mn sq ft for mix development on the plot including a 4-Star Hotel, a Commercail Complex & a Retail Mall. However, the work is going on the site & is likely to complete the construction work by FY2011. MPL's investment in its Real Estate Venture is around INR 4 bn. However going forward, Management has guided that the projects would be self funded & would not drag on its cash flows.

### ➔ Power Projects

In order to move up the value chain, MPL is entering intop Power Generation business & this step is likely to help for smooth generation as it has acquired coal mining rights for over 250 mn tns of reserves. MPL is also setting up a 540MW thermal power plant at Krishnapatnam in Nellore Dist. in JV with Malaxmi Group. The plant is slated to be developed in two phases of 270MW each. The company has created a SPV named Simhapuri Energy Private Ltd. for the same in which it holds 48% equity stake. The SPV has already secured land & the necessary environment clearances from the Ministry for the project has also been achieved. Madhucon has achieved financial closure for the first phase of the 270MW power plant in Krishnapatnam, Nellore & construction work has already been started. MPL has quite aggressive plans for this Division & the project cost of Phase 1 is expected to be around INR 13.36 bn which would be met through, a Debt-Equity ratio of 75:25. As of FY2009, The company has invested around INR 8 bn in its Power business & is further expected to invest around INR 2.5 bn over the next 2 years in this segment.

## Key Positives

Economic slowdown, high commodity prices & lack of liquidity in the market had completely changed the landscape for the Indian construction players. However with its Robust Portfolio & strong execution abilities provides a unique opportunity to be one of the emerging player, which is to be benifited from the spendings on Indian infrastructure sector.

### Diversified Portfolio

Traditionally, MPL has been one of the significant player in Roads & Irrigation sectors, but its also has diversified its portfolio into other sectors including Coal & Power in order to reduce risk from any potential slowdown in any particular segment. MPL has also been allocated a coal exploration licence in Indonesia for 3188 hectares & is also setting up a 540MW capacity power plant in 2 phases with financial closure for the first phase of 270MW has already been achieved. With the company's presence in various infrastructure veticals, it would present a great value unlocking going forward.

### Beneficial Demand for Road sector

The Road sector infrastructure is likely to see a major pick up from the government as

- 1) NHAI is targeting to bid out 70 road projects totaling INR 750 bn investment over the next 6 months.
- 2) Accelerating clearances & extending additional inducements (revision of project costs, 40% Viability Gap Funding to be paid in the construction period as against the earlier norm of part payment during construction & the balance after completion of the project) to make road projects more attractive.
- 3) Giving developers free hand by removal of the controversial 2.1.18 clause of Model Concession Agreement (limiting a bidder to bid for not more than eight projects).

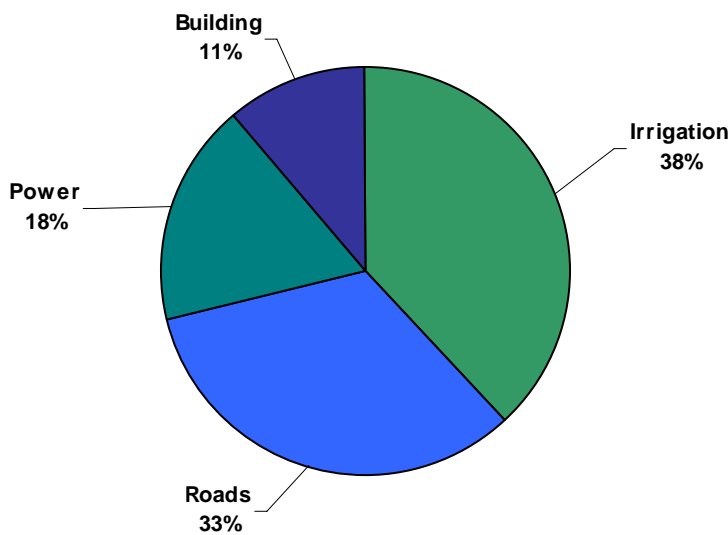
**➔ Coal Ventures**

MPL actively forayed in coal mining activity in FY07 where it acquired licenses for couple of mines in Indonesia via its wholly owned subsidiary PT Madhucon Indonesia. MPL's 95% subsidiary, PT Madhucon is in the Coal business. The company has already started excavation at the East Kalimantan mines in Indonesia, which as per a geological survey, has substantial reserves of 250mn tonnes. The company is setting up a jetty to export the coal from this mine. MPL has also received another licence to prospect coal from 10,000 hectares of land in & around Sumatra, Indonesia. Geological studies are currently being done to estimate the reserves at these mines. As in case of theafore-mentioned mine, MPL would has this mine on 30-year lease basis & makes royalty payment of around 11% to the government.

**➔ Robust Order book**

The company has an order backlog of INR 51.5 bn, with outstanding order book comprising of Irrigation (38%), Roads (33%), mainly Highways & Flyovers, Power (18%) - in house orders & Buildings (11%). MPL is also L1 for orders of worth INR 3.9 bn from Railways, which provides revenues visibility for the next 3-4 years period.

**Order Book break Up**



Source:- Company

**➔ Fund Raising plans for Infrastructure subsidiary**

MPL has outlined an investment of over INR 5 bn on various infrastructure projects viz. roads, coal mines, power project & real estate project over the next 3-4 years. The company has formed a 100% infrastructure holding subsidiary called Madhucon Infrastructures, which holds the infrastructure assets of the company under the above mentioned segments. The company is looking to raise funds at the level of this subsidiary in order to fund the projects. However going forward, this would help the company to ease the pressure on the cash flows needed to fund its ongoing & future valuable projects. However, if the company is able to successfully raise funds by diluting stake at the subsidiary level, it would ease pressure on the cash flow of parent, which in turn would lead to lower debt raising & hence lower interest cost leading to higher Net Margins. Even with the improvemnet in the liquidity scenario, MPL would be one of the biggest beneficiaries of the positive change as it has an attractive portfolio of offerings.

(Contd.....)

**Improving liquidity environment**

The ongoing Credit crisis has reduced the quantum of capital (both debt & equity) available globally & increased the cost of the same. These factors affected companies which are linked with the construction sector, which were looking at fund raising opportunities. However, with a more stable government in place now & overall liquidity environment improving, it is expected that the capital issues would get sorted out in the medium term. This is very much visible with a number of projects achieving financial closure & companies raising money via equity.

**Clientele**

As one of India's leading EPC & BOT Contractors company have executed wide ranging projects in the areas of State & National Highways, Bridges, Flyovers, Irrigation Projects (Dams, Canals, Tunnels) Industrial Projects, Townships, Railway Projects etc. Company have major clients like National Highways Authority of India, State Highway Development Corporations, R&B Departments of State Governments, Irrigation & CAD Departments of State Governments, Maharashtra Krishna Valley Development Corporation, Hyderabad Urban Development Authority, Northern Coalfields Ltd, Coal India, Konkan Railway Corporation, Indian Railway Construction Company, Indian Oil Corporation, Narmada Valley Development Authority, Andhra Pradesh Housing Board etc.

➔ **Escalation Clause- a positive factor**

With the Global Economy meltdown, every sector has been affected & Commodity prices has been worst affected. The companies covered under escalation clause has not been affected more, only in sense of slowing down the projects, as their prices are been fixed. Around 65% of the MPL's current order book is covered under escalation clause & orders of worth INR 17 bn from the Road Segment are on fixed prices & so any decline in the commodity prices does not faced any impact on its OPMs.

➔ **Foray into newer avenues**

Over the years, MPL has emerged as a dominant player in Road construction & Irrigation sector, having executed ~500 km of works across major National & State Highways. This places it in a better position today to capitalize various projects & bid for the same, coming up from the newly elected government which even provides clear revenue visibility for long term point of view. However, in order to diversify its business model & shift its growth trajectory towards being an integrated infrastructure developer, the company has forayed into energy, property development & coal mining business. In line with this, the company has been allotted coal exploration licence in Indonesia covering 3,188 hectares. MPL is also setting up a 540MW capacity power plant in two phases wherein it has already achieved financial closure for the first phase (270MW). Further, presence of an in house execution capability spanning EPC work for roads & power projects not only reduces MPL's dependence on third party subcontractors but also gives it a greater control over the construction quality & ensures timely execution.

➔ **Key Joint Ventures & Partners**

- ➔ Sinohydro Corporation, Beijing, China (USD 2 Bn company) specializing in Water Resources Projects (Madhucon-Sinohydro JV)
- ➔ Binapuri Sdn Bhd, Malaysia, experts in Highways & Property Development (Madhucon-Binapuri JV)
- ➔ Kanchanjunga Constructions, Nepal, a leading Construction Company (Madhucon-Kanchanjunga JV)
- ➔ WCT Land Berhard, Malaysia, a leading Property Development Company of Malaysia (WCT Land-Madhucon JV)
- ➔ SKEC, Seoul, Korea, a leading Infrastructure company of South Korea. (Madhucon-SKEC JV)
- ➔ Glomac Berhard, Malaysia, a leading company in Property Development (Glomac-Madhucon JV)

**Key Financials**

Year Ended Mar 31 <sup>st</sup>	FY 06	FY 07	FY 08
Revenue (INR mn)	3495.4	5318	7506.3
<b>Rev. growth (%)</b>	<b>12.55</b>	<b>52.14</b>	<b>41.15</b>
EBITDA (INR mn)	648.8	912.8	1120.3
Net profit (INR mn)	331.2	415.7	472.5
Shares outstanding (mn)	37.0	37.0	37.0
EPS (INR)	9.0	11.2	12.8
<b>EPS growth (%)</b>	<b>(70.00)</b>	<b>25.51</b>	<b>13.66</b>
P/E (x)	42.6	18.2	39.1
EV/ EBITDA	214.8	83.4	165.6
<b>ROCE (%)</b>	<b>10.07</b>	<b>7.15</b>	<b>7.06</b>

**Capex Projects on hand**

**Jharkhand Coal Based Power Proj**

**Location:-** Jharkhand

**Cost:-** 48 bn

**Product:-** Coal Based Power

**Capacity:-** 1000MW

**Status:-** Announced

**Kukatpally Commercial Dev Proj**

**Location:-** Hyderabad

**Cost:-** 9 bn

**Product:-** Commercial development

**Capacity:-** 9.2 acres

**Status:-** Under Implementation

**Agar-Sarangpur-Khilchipur-Susner Rd**

**Location:-** Madya Pradesh

**Cost:-** 620 mn

**Product:-** Highway

**Capacity:-** NA

**Status:-** Announced

**Madhucon Mega Mall**

**Location:-** Hyderabad

**Cost:-** NA

**Product:-** Mall

**Capacity:-** NA

**Status:-** Under Implementation

## Financial Statements

### Income Statement

(INR mn)

Year end Mar 31 <sup>st</sup>	FY 06	FY 07	% Chg	FY 08	% Chg
Operating Income	3422.3	5103.5	49.12	7384.2	44.69
Other Income	73.1	214.5	193.43	122.1	(43.08)
Change in Stocks	(438.3)	(507.7)	15.83	(718.9)	41.60
Raw Material Con.	333.1	732.9	120.02	1249.4	70.47
Employee Exp.	94.8	132.2	39.45	302.6	128.90
Excise	0.0	0.0	0.0	0.0	0.0
Other Exp.	1980.4	3032.4	53.12	4115.1	35.70
Operating Exp.	2846.6	4405.2	54.75	6386.0	44.97
Operating Profit	575.7	698.3	21.30	998.2	42.95
Total Interest	83.0	70.0	(15.66)	85.6	22.29
Gross Profit	565.8	842.8	48.96	1034.7	22.77
Net Dep.	191.4	253.0	32.18	339.4	34.15
Total Taxation	43.2	174.1	303.01	222.8	27.97
Net Profit/Loss	331.2	415.7	25.51	472.5	13.66

### 4 Years Balance Sheets

(INR mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 05	Mar 06	Mar 07	Mar 08
<b>SOURCES OF FUNDS</b>	<b>1450.7</b>	<b>5129.5</b>	<b>6490.7</b>	<b>6887.6</b>
Equity Share capital	54.5	74.0	74.0	74.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	975.6	4021.3	4405.1	4851.6
Loan Funds	404.9	1034.2	2011.6	1962.0
Unsecured Loans	15.7	0.0	0.0	0.0
<b>USES OF FUNDS</b>	<b>1450.7</b>	<b>5129.5</b>	<b>6490.7</b>	<b>6887.6</b>
Gross Block	1563.6	1890.0	2935.7	3734.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	637.7	755.9	979.9	1308.8
<b>Net Block</b>	<b>925.9</b>	<b>1134.1</b>	<b>1955.8</b>	<b>2425.3</b>
Capital Work in Progress	0.0	0.0	0.0	54.7
Investments	12.5	12.8	2311.2	2996.8
Current Assets	2304.5	6288.8	5815.8	7086.1
Less : Current Liabilities	1792.3	2306.2	3592.1	5675.3
<b>Net Current Assets</b>	<b>512.2</b>	<b>3982.6</b>	<b>2223.7</b>	<b>1410.8</b>
Misc. Expenses not written	0.1	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	12.5	12.9	2311.1	2996.7
Mkt Val. Quoted Investments	0	0	1.1	0
Contingent Liabilities	101.5	96.8	96.8	441.8
Dividend (%)	20	30	30	30

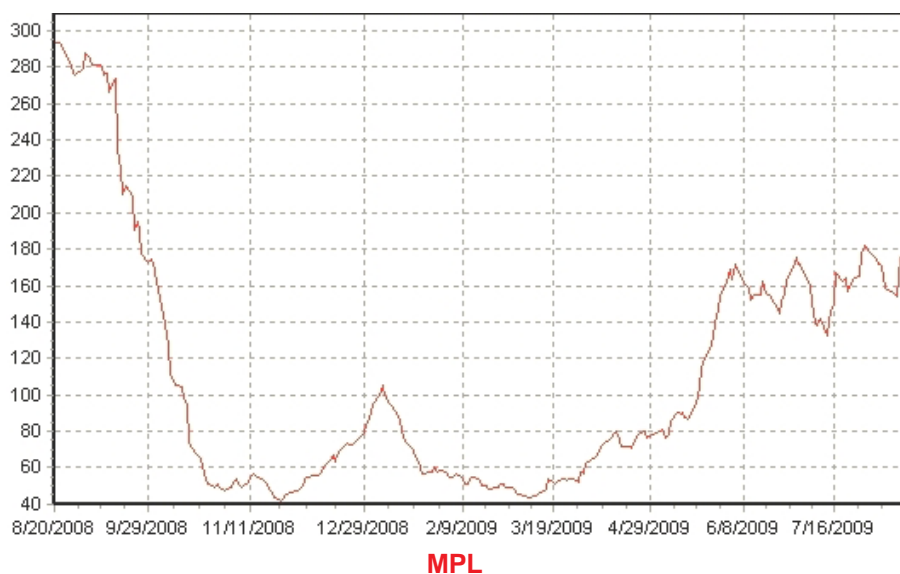
**Quarterly Income Sheets**

(INR mn)

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Operating Income	2428.9	2272.6	3258.8	2848.0
Operating Cost	702.6	1359.6	975.5	1313.5
Operating Profit	1726.3	913.0	2283.3	1534.5
Recurring Income	24.6	44.5	68.6	18.1
Adjusted PBDIT	1750.9	957.5	2351.9	1552.6
Financial Expenses	61.1	26.3	32.2	66.9
Depreciation	142.1	88.4	100.5	102.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	1547.7	842.8	2219.2	1383.2
Tax Charges	95.5	25.5	98.4	73.7
Adjusted PAT	1452.2	817.3	2120.8	1309.5
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	1324.0	678.7	2042.3	1178.7
Net Profit	128.2	138.6	78.5	130.8

(Financials As per the Data available)

**52 Week Closing Price**



**Risks Associated**

**Project Risks**

One of the major concern for the constructuion companies is project risks. As any delays in project execution would lead to costs overruns & in turn would affect their operating performance. MPL's Polavaram Project had been delayed, but its well on track & so any future delays would have an bad impact & its profitability.

**High dependence on Government expenditure**

Majority of MPL's projects are government contracts, which have inherent risks of delays in finance disbursals by the State Governments. This could delay projects & put extra pressure on the company's working capital.

**Rising raw material prices**

Rising raw material prices is another concern, which could impact construction companies particularly with the prices of steel & cement having spiked in the recent years. A sharper-than-expected increase in the prices of these raw materials could impact Margins. This is a big concern for MPL as it has fixed price cash contracts.



### In a Nutshell

Madhucon Projects Limited (MPL), Hyderabad, the flagship company of Madhucon Group was established in 1983. Being one of the leading player in EPC & BOT, it has executed wide ranging projects in the areas of State & National Highways, Bridges, Flyovers, Irrigation Projects (Dams, Canals, Tunnels) Industrial Projects, Townships, Railway Projects etc. Madhucon has a wide ranging experience in design & execution of huge Civil Engineering projects, both on item rate as well as EPC/BOT basis & has an in house Design engineering cell manned by qualified, experienced Design engineers equipped with state of art software. MPL is a leader in construction of Highways & Expressways & has built nearly ~500 KM of Highways in the Golden Quadrilateral Road Network in India connecting Mumbai, Delhi, Calcutta & Chennai. MPL won recognition from National Highway Authority of India (NHAI) for its Quality & Speed in execution its projects.

### Indira Group Offices

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### Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate up to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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