

# Hindustan Construction Company Ltd — Feb 2023 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Miss on Operations / Beat on Financial Restructuring **One-line:** The financial thesis is playing out with a structural ₹100 Cr/quarter interest saving, but the operational thesis is under pressure from a massive one-time loss in the Swiss subsidiary and a depleting order book that has yet to see the promised "post-restructuring" bidding surge.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Miss	Consolidated loss of ₹258.4 Cr vs profit YoY; Steiner AG losses exceeded management's prior "volatility" warnings.	□
Earnings Quality	Low (One-off driven)	Consolidated results skewed by two major legal settlements in Switzerland (75-80% of Steiner loss).	□
Guidance Confidence	Neutral	Management's claim that Swiss losses won't repeat is high-stakes; Joshimath stoppage adds project-specific risk.	□
Management Credibility	Neutral	Successfully delivered interest cost reduction (₹138 Cr vs ₹247 Cr YoY), but failed to convert the bidding pipeline into new awards.	□
Business Quality Signal	Stable	Core E&C margins (15%) are healthy; technical moat in complex projects (BKC station L1) remains intact.	□
Key Q&A Exchange	Q5 + Steiner AG	Management admitted to taking a "considerable write-down" to exit legacy disputes and Eastern Swiss construction.	□
The Street's Primary Anxiety	Order Intake Lag	Analysts repeatedly questioned why no major orders have been booked despite the debt resolution completion.	□
Capital Cycle Stage	Consolidation	Transitioning from "survival mode" (debt resolution) to "growth mode" (selective bidding).	□
Margin Trajectory	Improving (Standalone)	Standalone margins recovered to 15% from 10.5% in Q1; Consolidated margins hit by Steiner.	□
Pricing Power	Stable	Focusing on complex, low-competition bids (Nuclear, Hydro, Underground Metro).	□
FCF Conversion & Quality	Distorted	Cash flow remains tight due to "funding issues" that curtailed ₹200-300 Cr of potential turnover this quarter.	□
Competitive Moat	Stable	Expertise in underground structures (Mumbai Metro, Coastal Road) provides a 4-5 player niche.	□
Balance Sheet Strength	Adequate	Standalone net worth is positive (₹650 Cr) and growing; debt resolution plan is fully operational.	□
Working Capital Efficiency	Deteriorating	Funding constraints mentioned as a reason for missing execution targets by ~₹250 Cr.	□
Mgmt Guidance Track Record	Mixed	Accurate on interest savings; failed to anticipate the scale of Swiss settlements and order intake timing.	□
Key Vulnerability	Promoter Holding	Stake dropped from ~36% to ~18%; significantly reduces management's "skin in the game."	□
Management Tone	Resolute but Defensive	Arjun Dhawan was assertive about restructuring success but defensive regarding the promoter stake drop.	□

Sentiment: Neutral

**Key Takeaways:** \* **Positives:** The debt resolution plan is delivering. Finance costs have fallen by ~₹110 Cr/quarter (₹138 Cr vs ₹247 Cr in Q3FY22), creating a path to sustainable standalone profitability. Standalone EBITDA margins (15%) align with historical "complex project" performance. \* **Negatives:** The "Swiss Albatross" (Steiner AG) produced a massive CHF 40M loss due to legacy settlements. The standalone order book has depleted to ₹12,675 Cr (from ₹14,875 Cr in Q1), and the promoter stake has halved to 18%, raising major governance and commitment red flags. \* **Street Concern:** Analysts are frustrated by the bidding lag. Management's response—that they are prioritizing high-margin, low-competition complex jobs over "plain vanilla" roads—is strategically sound but creates revenue lumpy-ness. \* **Forward Watchpoint:** Monitor the conversion of the ₹1,288 Cr BKC Station L1 status into a formal Letter of Award (LoA) and the conclusion of the Baharampore-Farakka (BFHL) stake sale.

## 2. BUSINESS PERFORMANCE

**2A. KEY METRICS** Note: PPT provided primary figures; Concall clarified that ~ 200-300 Cr of execution was missed due to "funding issues."

Metric	Current Qtr (Q3FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Standalone)	₹1,155 Cr	→ Flat	↑ 17.4%	↑	Execution hit by "funding issues" and Joshimath stoppage; missed ~₹250 Cr target.
Revenue (Consolidated)	₹2,035 Cr	↓ 21.1%	↓	↓	Dragged by Steiner AG (Swiss) turnover decline (CHF 186M to CHF 94M).
EBITDA (Standalone)	₹173.3 Cr	↓ 39.4%	↑ 70.5%	↑	Normalized after Q1's protest-related collapse; Volume driven.
EBITDA Margin (%)	15.0%	↓ 1,000 bps	↑ 455 bps	↑	Recovery toward mid-teens target; pricing/escalation clauses protecting margins.
PAT (Standalone)	₹25.2 Cr	↓ 7.3%	↑	↑	Supported by ₹110 Cr reduction in quarterly interest costs.
PAT (Consolidated)	(₹258.4 Cr)	↓ 464%	↓	↓	Impacted by CHF 40M loss at Steiner AG and Joshimath uncertainties.
Order Book	₹12,675 Cr	↓ 15%*	↓ 14.8%	↓	Depleting as execution continues without major new inflows.
Net Debt (Standalone)	~₹3,500 Cr	↓	→	↑	Restructuring complete; first repayment due in March 2023.
Interest Coverage (x)	1.25x	↑	↑	↑	Improved from <1x as interest costs fell to ₹138 Cr.
Finance Cost (Stand.)	₹138 Cr	↓ 44.1%	↓ 43.2%	↑	<b>Primary Thesis Driver:</b> Resolution plan successfully lowered rates/principal.

\*Estimated based on prior Q1 data of 14,875 Cr.

### 2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Transport	~₹550 Cr	Flat	High	→	Above	Mumbai Coastal Road (54% complete); Anji Khad Bridge near completion.
Hydro	~₹250 Cr	↓	Mixed	↓	Inline	Vishnugad Pipalkoti (Joshimath) work stopped; Nikachhu (95% complete).
Nuclear/Special	~₹150 Cr	Flat	High	→	Above	RAPP 7&8 (98% complete); Looking for new nuclear tenders.
Steiner AG (Swiss)	₹72 Cr (CHF 94M)	↓ 49.3%	Negative	↓	Below	CHF 40M loss on legacy settlements and exit from Eastern Switzerland.
Concessions (BFHL)	₹32.2 Cr	↑ 9% PCU	N/A	↑	N/A	Toll rate hike of ~45% expected in Q2FY24 post-bridge completion.

### 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Debt Servicing	First repayment due in March 2023.	~₹100-200 Cr (est)	On track post-RP.	Medium
Guidance	Interest Cost	Sustainable quarterly cost of ~₹140 Cr.	₹140 Cr/qtr.	<b>Delivered</b> (₹138 Cr).	Low
Guidance	Order Intake	Targeting large, high-margin, complex jobs.	~₹2,000 Cr/qtr to sustain book.	<b>Missed</b> (Book declined).	High
Guidance	Steiner AG	Expectations of no further major settlements.	Zero legacy hits.	First time claim.	High
Strategy	Bidding	Focus on Nuclear, Hydro, and Underground Metro.	Bid pipeline ₹9,500 Cr.	Active bidding.	Low
Macro	Joshimath	Contractually comfortable; client stoppage.	N/A	On-hold.	Medium
Balance	Promoter Stake	Deleveraging is "complete."	N/A	Stake halved (18%).	<b>High</b>

## 4. ANALYST Q&A

---

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Kenil Mehta	Execution	Financials	"What was the reason for falling revenue... in a peak season... and why was the order inflow very low?"	Management attributed the ₹200-300 Cr execution miss to "funding issues" and stated the Chennai Metro order was cancelled by the client for rebidding. This signals that while the debt restructuring is done, operational liquidity remains a bottleneck for execution.	None	4.0	Funding remains tight
2	4.5	Girish Gangal*	Swiss Loss	Financials	"What is the reason for Swiss subsidiary making losses this quarter?"	The loss was driven by settlements on two projects completed 2-3 years ago to increase liquidity and an exit from Eastern Switzerland construction. This implies a "cleaning of the slate," but at a massive cost to consolidated equity.	None	3.5	One-time hit
3	4.0	Prashant	Legacy Book	Business	"What are the quantum of orders that are old orders... what about	Majority of the ₹12,675 Cr book is >2 years old, but most have price escalation	None	4.0	Inflation protected

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					price escalation?"	formulas to protect against inflation. This mitigates raw material risk but confirms the "stale" nature of the current backlog.			
4	5.0	Prashant	Governance	Governance	"Promoters holding has come down to almost 18%, right? So, is there any plan to increase the shareholdings?"	Management explained the drop as "discharging leverage" and baggage going off the shoulders, with a vague "appropriate time" promise for increasing stake. This is a significant governance red flag as promoter commitment appears diluted.	Specific timeline for buyback	2.5	Credibility hit
5	4.5	Arjun Dhawan*	Swiss Asset	Strategy	"We are considering some strategic alternatives with regard to certain parts of the Steiner business."	Management is looking to raise capital by selling parts of Steiner to return funds to HCC India. This could be the next major liquidity catalyst, moving Steiner from a liability to a cash generator.	None	3.5	Strategic exit
6	4.0	Mohit	Policy	Macro	"The government	Management views the	None	4.0	Optionality

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					has come out... with the voluntary settlement scheme (Vivad se Vishwas II), do you have any idea what kind of solutions are possible?"	scheme as a positive avenue to resolve long-standing court cases and release trapped liquidity, though fine print is awaited. Success here would accelerate the monetization of HCC's massive arbitration award pipeline.			
7	3.5	Mayank	Debt	Financials	"So like in the accounting statements, still you will be calculating that interest cost... till March we don't need to pay?"	CFO confirmed accounting remains on accrual (₹138 Cr/qtr) but the actual cash outflow for repayment only begins in March 2023. This confirms a "cash holiday" that is currently being used to fund operations.	None	5.0	Cash flow buffer
8	4.0	Riddhi	Joshimath	Business	"Is work going on, on your Joshimath project and is there any liability on your side?"	Work is stopped per government orders, but management claims "no connection" to local subsidence and no	None	4.0	Risk ringfenced

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						contractual liability. This removes the "negligence" fear but keeps the revenue-at-risk.			

**PATTERN FLAGS & SENTIMENT** \* **The Steiner "Black Box"**: Analysts were blindsided by the CHF 40M loss. Management's defensive posture—calling it "extraordinary" and related to "legacy settlements"—suggests they are aggressively cleaning the balance sheet, but investors remain skeptical of whether more skeletons remain in the Swiss closet. \* **The Empty Bidding Bowl**: Despite the resolution plan completion, HCC has not won a major solo contract in months. The anxiety around the depleting order book is palpable. Management's pivot to "larger, complex, JV-led" projects suggests a lower-volume, higher-margin future, but the market wants to see the "L1" labels convert to "Order Won" status. \* **Promoter Dilution**: The drop to 18% stake was the most friction-heavy topic. Analysts view this as a lack of confidence; management frames it as financial necessity. This remains the biggest unresolved overhang on the stock's valuation.

**Analyst Sentiment Verdict**: Skeptical and weary. While analysts acknowledge the massive success of the interest cost reduction, they are increasingly concerned about the halving of promoter skin-in-the-game and the recurring "surprises" from Switzerland. The credibility of the "growth" narrative is now entirely dependent on winning 1-2 large tenders in the next 6 months.

## 5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY23)	This Quarter (Q3FY23)	Direction
Finance Cost	₹243 Cr / quarter	₹138 Cr / quarter	↑ Improving
Order Book	₹14,875 Cr	₹12,675 Cr	↓ Deteriorating
Promoter Stake	~36%	~18%	↓ Deteriorating
Swiss Status	Operational volatility	Major Structural Loss (CHF 40M)	↓ Deteriorating
Bidding Status	Pipeline focus	L1 in BKC Station (₹1,288 Cr share)	↑ Improving
Execution Hurdles	Labor/Protests (Mumbai)	Funding constraints / Joshimath	↓ Deteriorating

**INVESTOR NOTES**: \* **Earnings Quality**: Standalone PAT of ₹25 Cr is "cleaner" than prior years due to the structural debt swap, but it is fragile. The CFO-to-PAT ratio is likely weak, as management explicitly noted "funding issues" prevented them from executing an additional ₹200-300 Cr of work. \* **Thesis Change: The thesis has bifurcated**. The *Financial Turnaround* (Interest reduction) is a proven success. The *Growth Turnaround* (Order intake) is failing to launch. Until the order book stabilizes and the promoter stake is addressed, HCC remains a deleveraging play rather than a growth story.

STOP.