Hindustan Construction Company Ltd — May 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Standalone Miss / Consolidated Beat **One-line:** The business is at a fundamental inflection point as 100% lender approval for the long-awaited Debt Resolution Plan (RP) finally provides a path to solvency, though core E&C continues to struggle with high input costs and interest burdens.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Standalone Miss; Consolidated Beat	Standalone revenue missed internal run-rates; Cons. PAT turned positive (□471.6 Cr calculated from loss bridge).	□
Earnings Quality	Low (Restructuring/One-off driven)	Consolidated profit driven by Steiner AG turnaround and concession updates; standalone remains loss-making.	□
Guidance Confidence	Neutral	60-90 day timeline for RP closure is the third major extension; execution depends on "logistical" completion.	□
Management Credibility	Neutral	100% lender sign-off achieved, but reporting delays and vague Steiner AG data points raise transparency flags.	□
Business Quality Signal	Improving	Shift from "Zombie" status to an active EPC player with a healthy 3.4x book-to-bill ratio.	□
Key Q&A Exchange	Q#1: Debt Recast Timeline	100% lender approval is secured; closure expected in 60-90 days (Q2 FY23).	□
The Street's Primary Anxiety	Liquidity & Solvency	Analysts focused on when the RP benefits (interest pause/ limit release) actually hit the P&L.	□
Capital Cycle Stage	Consolidation	Exiting legacy assets (Baharampore Farakka) to deleverage and restart bidding.	□
Margin / Return Ratio Trajectory	Improving (Operating Level)	Standalone EBITDA margin expanded to 17% (FY22) from 11.6% (FY21).	□
Pricing Power	Stable	Escalation clauses protect most contracts, but 30-40% RM hikes in steel/cement are testing caps.	□
FCF Conversion & Quality	Distorted	PAT is positive consolidated, but standalone cash is trapped in arbitration (□5,000 Cr under challenge).	□
Competitive Moat Signals	Stable	High technical barriers in Hydro/Nuclear prevent entry of low-tier players.	□
Balance Sheet Strength	Stressed	Negative net worth in key subsidiaries; total debt necessitates the "carve-out" SPV model.	□
Working Capital Efficiency	Deteriorating	Significant ICDs (□1,564 Cr) stuck in negative net-worth subsidiaries (HICL).	□
Mgmt Guidance Track Record	Mixed	Historically delayed restructuring; current quarter marks the first definitive 100% approval.	□
Key Vulnerability / Red Flag	Arbitration Realization	□5,000 Cr in awards challenged by NHAI; cash flow is reliant on court execution petitions.	□
Management Tone	Guarded but Relieved	Management expressed regret for reporting delays but was firm on the 100% lender consensus.	□

Sentiment: □Neutral

Key Takeaways: * **Positives:** 100% Lender approval for the Debt Resolution Plan is the single most important thesis-changing event in five years; Baharampore Farakka asset sale provides ₹900 Cr liquidity; Steiner AG (Switzerland) shows a sharp recovery with PAT growing to ₹312 Cr (per concall). * **Negatives:** Standalone E&C remains in a net loss position (-₹153 Cr for FY22); ₹5,000 Cr in arbitration awards remain under legal challenge by clients; raw material inflation (30-40% in key inputs) is eating into operational gains; significant credit risk remains with ₹1,564 Cr ICDs to a subsidiary with negative net worth. * **Street Concern:** Analysts are skeptical of the "60-90 day" closure timeline given the history of delays, and are worried about the blended 11% interest cost of restructured debt. * **Watchpoint:** Completion of the "carve-out" of debt into the SPV in Q2 FY23, which will determine if HCC can bid for high-value projects independently without JV partners like KEC.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS (FY22 / Q4 FY22)

DATA SOURCE: PPT and Concall. Numbers are Consolidated unless specified as Standalone.

Metric	Current Year (FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (Cons)	₹10,669 Cr	↑ 29.3%	First entry	↑	Volume driven growth; increase from ₹8,248 Cr last year.
Revenue Standalone	₹4,666 Cr	↑ 80.2%	First entry	↑	Sharp recovery post-COVID; execution normalized.
EBITDA (Standalone)	₹793.2 Cr	↑ 164%	First entry	↑	Margin expansion from 11.6% to 17%.
EBITDA Margin %	17% (Stand.)	↑ 540 bps	First entry	↑	Operational efficiencies and project mix (Hydro/Metro).
PAT (Consolidated)	₹471.6 Cr	↑ Turnaround	First entry	↑	Previous year was a loss of ₹610 Cr.
PAT (Standalone)	(₹153.1 Cr)	↑ Improving	First entry	↑	Loss narrowed from ₹566.5 Cr in FY21.
Order Book	₹16,000 Cr	→ Stable	First entry	→	Book-to-bill at 3.4x (based on standalone revenue).
Order Inflows (FY)	₹3,100 Cr	First entry	First entry	→	HCC share was ₹1,558 Cr.
Net Debt (Cons)	Not Specified	First entry	First entry	→	Restructured debt under RP closure process.
Interest Coverage	0.8x (Implied)	First entry	First entry	↓	Standalone still unable to cover full interest from EBIT.
Working Capital	₹1,564 Cr (ICDs)	First entry	First entry	↓	Concern over recoverability from HICL subsidiary.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Steiner AG (Swiss)	□6,015 Cr	↑ 6.4%	~5.2%	↑	In-line	PAT jumped to □312 Cr; strong order intake of □4,432 Cr.
HCC Standalone (E&C)	□4,666 Cr	↑ 80.2%	17%	↑	Outperform	10.2km excavation breakthrough in T49A tunnel.
Concessions	□128.7 Cr*	↓ 23%	N/A	↓	Underperform	Baharampore Farakka revenue hit by Covid; sale in progress.
*NH34 Pkg 3 Revenue only.						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Debt Resolution	Final closure within 60-90 days (Q2 FY23).	Documentation and regulatory approvals in progress.	Delayed previously; this is the final lap.	High (Regulatory lag)
Guidance	Margins	Maintain EBITDA levels (16-17%).	Dependent on RM price stabilization in 3-6 months.	Delivered 17% in FY22 vs 11.6% FY21.	Moderate (Input costs)
Guidance	Asset Sale	□900 Cr liquidity from Cube deal.	Transaction closes in Q2 FY23.	Binding term sheet signed Feb 2022.	Low
Strategy	Bidding	Focus on Hydro, Nuclear, Complex Urban Infra.	Target project size: □2,000 - □5,000 Cr.	Successfully bagged □1,558 Cr share in FY22.	Low
Balance	Debt Servicing	No interest/principal servicing till March 2023.	Contingent on RP closure.	100% Lender approval is the critical precursor.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Jigar Shah	Debt Plan	Financials	How much time will it take to finalize the debt resolution plan given shareholder approval is done?	Management indicated the process is in the logistical/ documentation stage and expects closure in 60-90 days. This provides a definitive timeline for the release of bank limits, essential for independent bidding.	None	4.0	Specific timeline given
2	3.5	Saurabh Agrawal	Debt Plan	Financials	Can the RP be fast-tracked to avoid further financial strain?	Management stated they are fulfilling mandatory regulatory procedures and cannot bypass documentation despite having 100% lender approval. This confirms that benefits will only accrue from Q2 FY23 onwards.	None	3.0	Regulatory dependency
3	4.5	Fair Value Capital	Future Outlook	Management Commentary	What is the micro/ macro view for standalone and Steiner businesses over the next 18 months?	HCC will focus on growth and profitability in Hydro, Nuclear, and Urban Infra, aiming to regain lost ground as a heavy construction major. This signals a return to core engineering strengths rather than capital-	None	4.0	Strategic clarity

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						intensive concessions.			
4	4.0	Kenil Omkara	Bidding Capacity	Management Commentary	Why bid in JV with KEC? Is it due to a weak balance sheet?	Management clarified the relationship is strategic, combining HCC's technical expertise with KEC's execution abilities, specifically for elevated metros. This confirms that until the RP closes, HCC remains reliant on partners for bank guarantees.	None	4.0	Strategic JV rationale
5	4.5	Kenil Omkara	Arbitration	Financials	What is the status of the ₹873 Cr arbitration award from NHAI?	Management explained that while the award is received, realization depends on whether the client challenges it, which they likely will. This highlights that "Awards" do not equal "Cash" in the near term.	None	3.0	Legal uncertainty
6	4.5	Kenil Omkara	Arbitration	Financials	What is the total award pending challenge from NHAI?	Roughly ₹5,000 Cr of awards are currently under challenge out of a total ₹6,200 Cr. This is a massive liquidity	None	5.0	Quantified overhang

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						overhang that remains tied up in courts.			
7	4.0	Kenil Omkara	Bidding Strategy	Business Overview	What is the size range of projects HCC will bid for?	HCC targets projects in the ₹2,000 to ₹5,000 Cr range but avoids mega-projects like the Bullet Train (₹25,000 Cr) due to appetite limits. This suggests a disciplined approach to risk-taking post-restructuring.	None	4.0	Risk discipline
8	4.5	A Nahata	Debt Cost	Financials	What will be the cost of restructured debt?	The blended interest rate for HCC will be approximately 10.5% to 11%, while debt in the carved-out SPV carries a 12% yield. High interest costs will continue to weigh on the bottom line even after restructuring.	None	5.0	Quantified cost
9	4.0	A Nahata	Margins	Financials	Can you hold gross margins in FY23 given raw material price hikes?	Management expects to maintain EBITDA margins in the 16-17% range due to escalation clauses, though some fixed-price projects are a risk. This implies that	None	3.0	Directional guidance

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						revenue growth must outpace cost increases to protect the bottom line.			
10	3.5	Saurabh Agrawal	Coastal Road	Business Overview	What is the update on the Mumbai Coastal Road project?	Work is progressing on reclamation and bridges, though fisherman protests have caused some disruptions expected to resolve in 2-3 months. The May 2024 completion timeline remains the target.	None	4.0	Specific status update
11	4.5	Mayank Agarwal	Related Party	Governance	What is the risk regarding □1,564 Cr investment in HICL, which has negative net worth?	Management claims the investment is fully recoverable based on internal third-party valuations of underlying assets. This remains a significant audit risk as it represents a large portion of the balance sheet.	Recovery specifics	2.0	Evasive on recovery

PATTERN FLAGS & SENTIMENT

- **Debt Resolution Skepticism:** Analysts repeatedly questioned the 60-90 day timeline for the Debt Resolution Plan. Management remained firm that the 100% lender approval is the "final hurdle," but the tone was one of bureaucratic exhaustion. This remains the primary bottleneck for the thesis; until the "logistical" documentation is signed, HCC remains hampered in its ability to bid for large-scale work independently.
- **Arbitration vs. Cash:** There is a clear disconnect between the company's "Success" in winning □6,200 Cr in awards and the reality that □5,000 Cr is stuck in litigation. Analysts pressed on why the company doesn't take

a 50% haircut for cash; management's refusal suggests they are banking on court execution petitions rather than settlements, a high-stakes strategy that keeps liquidity tight.

- **Governance - HICL/ICDs:** The concern regarding ₹1,564 Cr in inter-corporate deposits to a subsidiary with negative net worth (HICL) was raised. Management's reliance on "third-party valuation" without providing evidence of underlying cash-generating assets remains a red flag for earnings quality.

Analyst Sentiment Verdict: Cautiously Optimistic. While the 100% lender sign-off is a major credibility win for Arjun Dhawan, analysts remain wary of the interest costs (11%) and the slow realization of arbitration awards. The friction point has shifted from "Will they survive?" to "How fast can they grow?"

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Debt Servicing	No requirement till March 2023.	Blended cost will be ~11% post-restructuring.	The "pause" is temporary; the long-term cost remains high for an EPC player.	Margin compression in FY24.
Arbitration Cash	Received awards of ₹873 Cr.	Awards are likely to be challenged in court.	"Receiving an award" is not "receiving cash."	Working capital remains strained.
Independent Bidding	Strategy to focus on high-value jobs.	Currently bidding in JVs (KEC) due to limit constraints.	Full independence is 90 days away, not immediate.	Missed bid cycles in Q1 FY23.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.