Hindustan Construction Company Ltd — May 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat on Order Inflow / Inline on Standalone Operations / Miss on Consolidated PAT **One-line:** The "Growth" engine has finally been re-ignited with a ₹2,097 Cr sequential jump in order backlog, while the debt restructuring successfully stabilized standalone interest costs at ~₹150 Cr/quarter, shifting the thesis from "Survival" to "Execution."

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat	Order book grew to □14,772 Cr (up ~16.5% QoQ) vs the prior quarter's depletion trend.	□
Earnings Quality	Moderate	Standalone PAT (□253.4 Cr FY23) is high quality, but Consolidated results are marred by Steiner AG's Swiss losses (□352 Cr).	□
Guidance Confidence	Neutral	Management's FY24 bidding pipeline (□11,000 Cr) is ambitious but relies on successful JV partnerships.	□
Management Credibility	Neutral	Successfully delivered the BFHL sale and stabilized standalone margins, but the SPV investor entry is 3 quarters behind schedule.	□
Business Quality Signal	Improving	Highest ever standalone turnover (□5,222 Cr) proves operational resilience post-restructuring.	□
Key Q&A Exchange	Q5 + Debt	Management confirmed standalone interest cost is now structurally lower at ~□150 Cr/quarter vs □250 Cr+ pre-RP.	□
The Street's Primary Anxiety	Swiss Volatility	Recurring losses at Steiner AG; Mgmt claims these are "settlement-driven" and cash-flow focused.	□
Capital Cycle Stage	Consolidation	Transitioning to "Selective Growth" after a 2-year deleveraging/survival phase.	□
Margin Trajectory	Stable	Blended EBITDA margins at 14% (Standalone); guidance remains at industry avg of 12-13%.	→
Pricing Power	Stable	Focus on high-complexity, low-competition bids (Nuclear/Hydro) preserves margins.	□
FCF Conversion & Quality	Improving	BFHL sale generated □677 Cr total group inflow; standalone debt being serviced from internal accruals.	□
Competitive Moat	Stable	Expertise in "First-of-its-kind" projects (Bullet train, Anji Khad cable-stayed bridge).	□
Balance Sheet Strength	Stressed but Stable	Standalone debt □3,500 Cr; Group debt □5,200 Cr; next major repayment (□400 Cr) is 12 months away.	□
Working Capital Efficiency	Improving	Legacy arbitration awards (□1,700 Cr) and claims (□4,000 Cr) remain the primary unlock for future WC.	□
Mgmt Guidance Track Record	Mixed	Accurate on debt reduction; weak on Steiner AG stability and SPV timeline.	□
Key Vulnerability	SPV Entry Delay	The delay in a third-party investor taking over 51% of the debt-laden SPV keeps group debt consolidated.	□
Management Tone	Confident/ Resolute	Arjun Dhawan was assertive regarding the "legacy cleaning" being largely complete.	□

Sentiment: □Neutral to Positive

Key Takeaways: * **Positives:** The long-awaited order book turnaround has begun, with the backlog rising from □12,675 Cr to □14,772 Cr, ending a multi-quarter decline. The standalone business has reached "structural profitability" as finance costs dropped significantly post-restructuring. * **Negatives:** The Swiss subsidiary (Steiner AG) continues to be an "Albatross" around the consolidated neck, reporting a □352 Cr loss. The entry of an external investor for the □3,100 Cr SPV debt remains stuck in bank KYC processes, delaying the final balance sheet "clean-up." * **Street Concern:** Analysts are focused on the interest outgo and the sustainability of Swiss operations. Management response implies a focus on cash flow over P&L in Switzerland, indicating they are willing to take losses to settle legacy issues and free up liquidity. * **Forward Watchpoint:** Monitor the successful entry of the investor in the Debt SPV by Q2 FY24. Any further delay would signal continued lender skepticism or underlying asset quality issues.

2. BUSINESS PERFORMANCE

2A. KEY METRICS *Data source: PPT primary; Concall for Standalone vs SPV debt splits.*

Metric	Current Qtr (Q4FY23/FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (Standalone)	□5,222 Cr (FY23)	↑ 11.9%	↑	↑	**Highest ever** annual turnover for HCC E&C standalone.
Total Income (Consol)	□9,857 Cr (FY23)	↓ 7.6%	↓	↓	Dragged by Steiner AG Swiss turnover decline.
EBITDA (Standalone)	□731 Cr (FY23)	↓ 7.5%	↑	→	Excludes other income; FY23 at 14% vs 17% in FY22.
PAT (Standalone)	□253.4 Cr (FY23)	↑ 265%	↑	↑	Positive vs loss of □153.1 Cr in FY22; driven by interest savings.
PAT (Consolidated)	(□89.1 Cr) (FY23)	↓ 114%	↓	↓	Impacted by □352 Cr loss at Steiner AG (Swiss).
Order Book	□14,772 Cr	↓ 5.8%	↑ 16.5%	↑	**Rebound quarter:** Significant additions in Bullet Train/Metro.
Order Inflows (FY23)	~□5,000 Cr+	↑	↑	↑	Strong bidding success in H2 FY23.
Standalone Debt	□3,500 Cr	↓	→	→	Post-resolution plan; includes converted interest.
Consolidated Debt	□5,200 Cr	↑	→	↓	Includes □3,100 Cr in debt-carve-out SPV.
Interest Coverage (x)	~1.4x	↑	↑	↑	Improved via structural reduction in quarterly interest.
Execution Rate	~35.4%	↑	↑	↑	Calculated as Standalone Turnover / Opening Order Book.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Transport	Not stated	High	Stable	↑	Above	Mumbai Coastal Road bridge segments launching.
Hydro	Not stated	Moderate	Stable	→	Inline	Vishnugad Pipalkoti TBM freed; drilling to resume July 2023.
Nuclear/Water	Not stated	Stable	High	→	Above	Focus on new tenders in Urban Infra/ Sustainable space.
Steiner AG (Swiss)	□4,379.4 Cr	↓ 26.4%	Negative	↓	Below	Exit from Eastern Switzerland construction; legal settlements.
Concessions (BFHL)	□35.4 Cr (Q4)	↑ 3.0%	N/A	↑	N/A	Sold to Cube Highways; Enterprise Value □1,323 Cr.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Aiming to do better than FY23's ₹5,222 Cr in FY24.	Needs ₹1,350 Cr/qtr; avg FY23 was ₹1,305 Cr.	**Delivered** (Highest ever).	Low
Guidance	Margins	Blended EBITDA of ~12-13% for FY24.	Inline with historical non-one-off years.	**Missed** (Swiss drag).	Medium
Guidance	Debt Repayment	Next obligation: ~₹400 Cr in March 2024.	Needs monthly CFO of ~₹35 Cr.	On track post-RP.	Medium
Guidance	Bidding	Pipeline of ₹11,000-15,000 Cr for FY24.	Moderate vs book size.	**Beat** (H2 recovery).	Low
Strategy	SPV Exit	Investor entry into Debt SPV by Q1/Q2 FY24.	High dependency on 25+ lenders.	**Delayed** (3rd attempt).	**High**
Macro	Risk Pricing	No more "low complexity" 100km road bids.	High-margin complexity niche.	Consistent.	Low
Balance	Debt Free	Goal to be debt-free "as early as possible" via claims.	Needs ~₹4,000 Cr claims unlock.	Slow judicial pace.	High

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Mahesh	BFHL Sale	Financials	"What will be the cash inflow... how much we still have to spend on construction?"	Management confirmed a 677 Cr total group inflow from the sale, with only a 40-50 Cr delta required to complete remaining construction. This provides a clear liquidity buffer for standalone operations and debt servicing.	None	5.0	High clari
2	4.0	Sourav	BKC Project	Business	"When the Bandra-Kurla complex project will be starting?"	Construction has already started; this project is a key driver of the 14,700 Cr backlog execution. Success here is critical for proving JV-execution capability in complex urban rail.	None	4.0	Operation
3	4.5	Rahul Shukla*	Debt	Financials	"What is the performance... standalone debt with HCC would be around 1,900 crores?"	CFO corrected that standalone debt is 3,500 Cr; interest conversion into NCDs raised the nominal debt level during restructuring. This highlights that "debt reduction" in	None	5.0	Data Correctio

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						FY23 was accounting-led (carve-out) rather than cash-led repayment.			
4	4.0	Mohit Kumar	Revenue Guidance	Management Outlook	"How much is the top line expected in FY24... and margins?"	Management expects to exceed FY23 revenue (□5,222 Cr) with margins in the 12-13% range. This implies a steady-state growth of 10-15% YoY as the new order book starts contributing.	Specific margin numbers	3.0	Conserva
5	5.0	Chetan Cholera	Order Aggressiveness	Strategy	"Are we becoming too conservative in taking orders... see others getting large orders."	Management insists they are prioritizing "quality clients" and "margin protection" over volume growth. This signals a fundamental shift away from the "growth at any cost" strategy that caused the prior decade's debt crisis.	None	4.0	Strategic
6	5.0	Arjun Dhawan*	Debt Reduction	Management Outlook	"What steps are we going to take... to bring down debt further?"	Strategy relies on three pillars: arbitration settlements, taking out court-	None	4.0	Multi- pronged

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						deposited money against bank guarantees, and potential refinancing. This confirms that FCF alone is insufficient to clear the debt; litigation success is the primary catalyst.			
7	4.5	Neeraj Mansingka	SPV Delay	Governance	"The reason I asked is because the last 3 quarters we have been talking about [SPV Investor] and it is not completed."	Management admitted the delay is due to 25+ lenders' KYC processes and boards; majority approvals are now in. This remains a "trust but verify" item as it has been promised for nearly a year.	Specific closing date	2.0	Delay Fla
8	4.0	Vinay Chaudhary	Steiner Loss	Business	"Steiner AG... both FY22 and 23... we could see a big loss... what were these?"	Loss driven by "operational slowing" in Europe and "legacy settlements" to exit legal matters and increase cash flow. This implies Steiner is in a "clean-up" phase similar to what HCC standalone went through in 2021.	None	3.5	Clean-up loss

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
9	4.5	Sandip Sabharwal	Legacy Claims	Strategy	"What steps have you taken... to avoid [arbitration traps] in the future?"	Management is now avoiding NHAI-style "blacktop" roads in favor of complex hydro/nuclear where clients (Nuclear Power Corp, etc.) are perceived as more proactive. This reduces future claims risk but narrows the addressable market.	None	4.5	Structural Shift
10	4.0	Sandip Sabharwal	Interest Cost	Financials	"Paying 800 crores of interest every year... viability becomes a question."	Management clarified that FY23 P&L was heavy due to pre-restructuring interest; the "New HCC" will have quarterly interest of ~145-150 Cr (600 Cr/yr). This significantly improves interest coverage and bottom-line visibility.	None	4.5	Sustainab
11	4.0	Chirag Shah	Interest Discrepancy	Financials	"1,000 odd crores of finance cost... actual cash outgo which comes... is only 300 odd crores."	The gap is due to interest being accrued on arbitration-related debt and one-time settlements in SPVs. This reveals that the P&L	None	3.0	Accountin Gap

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						interest is much higher than the actual cash-drain on the business.			

PATTERN FLAGS & SENTIMENT

- **The "Structural vs Accounting" Debt Debate:** Analysts (Neeraj, Chirag, Mohit) remain confused by the consolidated debt numbering. Management's posture was defensive but clarifying, emphasizing that the "real" standalone burden is now serviced by "highest ever" revenues. The concern remains live because the ₹3,100 Cr carve-out is still consolidated until the investor takes 51% equity.
- **The "Swiss Skeletons":** Steiner AG's losses (Vinay, Sandip) are the primary source of friction. Management frames these as strategic exits from non-core regions (Eastern Switzerland) to free up cash. Investors are skeptical, fearing that European inflation and the Ukraine war might cause further write-downs next quarter.
- **Arbitration Monetization:** This is the ultimate "bull case" catalyst. Management (Arjun Dhawan) shifted from a passive "wait for court" stance to an active "refinance and bank guarantee" strategy to unlock cash faster.

Analyst Sentiment Verdict: Skeptical but intrigued. The standalone performance (record revenue, structural PAT) was acknowledged, but the recurring "settlement" losses in Switzerland and the 3-quarter delay in the SPV deal have created a credibility gap. The biggest friction point was the SPV investor timeline; management's credibility on this will be tested in Q2 FY24.

5. WHAT CHANGED vs PRIOR QUARTER

Comparison vs Q3 FY23 Prior Context

What Changed	Prior Quarter (Q3 FY23)	This Quarter (Q4 FY23)	Direction
Order Book	₹12,675 Cr	₹14,772 Cr	↑ Improving
Bidding Success	Missed major bids	Won Bullet Train Station / Metro JVs	↑ Improving
Standalone Profitability	₹25.2 Cr (Q3)	₹253.4 Cr (Full Year)	↑ Improving
Swiss (Steiner) Outlook	"Volatility"	"Settlement-led loss" (₹352 Cr)	↓ Deteriorating
Debt Composition	Restructuring recently completed	Interest converted to NCDs; Standalone debt ₹3,500 Cr	↓ Deteriorating
Asset Monetization	BFHL sale pending	BFHL sale closed (₹677 Cr inflow)	↑ Improving
Management Focus	"Survival/Restructuring"	"Selective Growth/Execution"	↑ Improving
SPV Deal Status	"Awaiting Lender Approval"	"Majority Approvals in; KYC Pending"	→ Stable/ Delayed

INVESTOR NOTES: * **Earnings Quality Check:** FY23 Standalone PAT of ₹253 Cr is supported by a structural reduction in interest (₹138-150 Cr/qtr run-rate vs ₹245 Cr prev). However, CFO-to-PAT remains distorted by the debt-carve-out and the BFHL sale proceeds. * **Working Capital Lever:** The primary lever remains "Arbitration

Receipts." Management is now using Bank Guarantees to extract court-deposited funds, which is a faster monetization route than final judicial orders. * **Thesis Change:** The financial turnaround is **proven**. The growth turnaround is **beginning**. The thesis moves from "Will it survive?" to "Can it execute the high-complexity backlog profitably?" The Swiss losses are the primary risk to consolidated NAV.

STOP.