Hindustan Construction Company Ltd — Nov 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat on Structural Milestone / Inline Operations **One-line:** The successful completion of the debt resolution plan and the definitive timeline for the BFHL sale pivot HCC from a "distressed survival" story to a "growth-ready" EPC player, though the reported PAT is heavily inflated by one-off gains.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Debt resolution completed; interest cost dropped to □136.9 Cr (vs □243.1 Cr in Q1).	□
Earnings Quality	Low (Distorted)	Standalone PAT of □312.8 Cr includes an exceptional gain of □223.3 Cr.	□
Guidance Confidence	Strong	Previous "4–5 week" debt transfer target delivered; BFHL sale closure "in coming weeks."	□
Management Credibility	Improving	Delivery on the complex debt carve-out significantly restores trust after multi-year delays.	□
Business Quality Signal	Improving	Bidding capacity restored via □5,000 Cr BG limits; pivot to high-margin urban/hydro infra.	□
Key Q&A Exchange	Q4 (Interest/ BGs)	Management confirmed weighted avg debt cost of 11.5% is now largely fixed and predictable.	□
The Street's Primary Anxiety	Promoter Selling	Analysts pressed on 7% reduction in promoter holding; mgmt cited deleveraging/encumbrances.	□
Capital Cycle Stage	Consolidation/ Exit	Exiting severe financial stress; moving to a "lighter" balance sheet with □4,000 Cr claims remaining.	□
Margin Trajectory	Improving	EBITDA margins (ex-Other Income) rose to 18.3% vs 10.5% in Q1.	↑
Pricing Power	Stable	Niche expertise in nuclear/hydro allows for "selective and conservative" bidding.	□
FCF Conversion & Quality	Distorted	P&L reflects accounting gains; real liquidity depends on the upcoming □600 Cr BFHL equity inflow.	□
Competitive Moat	Stable	Expertise in complex structures (Anjikhad bridge, T-49A tunnel) remains a high-entry barrier.	□
Balance Sheet Strength	Adequate	Fund-based debt to settle at ~□3,500 Cr; interest burden reduced by ~□550 Cr annually.	□
Working Capital Efficiency	Improving	Release of unutilized BGs and fresh limits enable mobilization of new high-value projects.	□
Mgmt Guidance Track Record	Reliable	Achieved 100% lender sign-off and debt transfer within the promised window.	□
Key Vulnerability	Dilution Risk	Enabling resolution for QIP remains a looming dilution overhang to fund future "mega-projects."	□
Management Tone	Resolute	VC Arjun Dhawan stated the company is "fed up" with non-EPC issues and focused squarely on growth.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The structural "overhang" is officially gone; the debt resolution is complete, and the standalone interest cost has nearly halved QoQ (₹137 Cr vs ₹243 Cr). HCC now has access to ₹5,000 Cr in operational Bank Guarantees, which was the primary bottleneck for revenue growth. The BFHL stake sale (₹600 Cr equity) is in final documentation, providing a massive liquidity bridge. * **Negatives:** Standalone PAT is non-recurring due to a ₹223 Cr restructuring gain. Promoter shareholding reduced significantly (7%) this quarter, which management attributes to personal deleveraging but remains a sentiment drag. Steiner AG saw a sharp YoY revenue drop (₹1,183 Cr vs ₹1,844 Cr) and PAT decline due to timing gaps in real estate project commercialization. * **Street Concern:** Analysts are focused on the "Growth Lag"—how long it takes to convert new bidding capacity into revenue. Management expects a 3–6 month mobilization period for new orders, meaning significant top-line acceleration is a FY24 story. * **Forward Watchpoint:** Monitor the "Earn-outs" from the BFHL sale (₹300 Cr in two phases) and the successful win of any project from the current ₹17,000 Cr bidding pipeline to validate the "new" HCC's winnability.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *Data source: PPT primary; Concall for commentary.*

Metric	Current Qtr (Q2FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (Standalone)	₹1,249.0 Cr	↑ 34.0%	↑ 26.9%	↑	Growth driven by improved operational efficiency and leaner organization.
EBITDA (Excl. Other Inc)	₹228.2 Cr	↑ 414%	↑ 124.5%	↑	Volume expansion and better cost absorption post-monsoon.
EBITDA Margin %	18.3%	↑ 1,350 bps	↑ 780 bps	↑	Margins returning to "lower-teen" historical industry standards.
PAT (Standalone)	₹312.8 Cr	↑ 296%	↑ 307.5%	↑	Includes ₹223.3 Cr exceptional gain from debt resolution.
Order Book (Standalone)	₹13,784 Cr	↓ 7.3%*	↓ 7.3%	↓	Reduction due to execution (RAPP 97%, Nikachhu 93%) and selective bidding.
Order Inflows	Nil (Reported)	-	-	→	Focus was on completing debt resolution; pipeline stands at ₹17,000 Cr.
Execution Rate (%)	~9.1%	↑	↑	↑	Improved pace at Coastal Road and hydro projects.
Book-to-bill (x)	2.76x	↓	↓	↓	Coverage remains healthy but needs fresh inflows to sustain 20%+ growth target.
Net Debt (Fund-based)	~₹3,500 Cr	↓	↓	↑	Significant reduction following the transfer of debt to the SPV.
Interest Coverage (x)	1.67x	↑	↑	↑	Massive improvement from 0.42x in Q1 due to lower interest accrual.
Steiner AG Turnover	₹1,183 Cr	↓ 35.8%	↓ 4.7%	↓	CHF 146M; lumpy revenue due to RE project permissions (3-5 year cycle).

**Calculated based on Q1 opening order book vs Q2 ending.*

2B. SEGMENT BREAKDOWN

Segment	Order Backlog (₹ Cr)	% of Backlog	Margin Profile	Trend	vs Co. Avg	Key Development
Transport	~₹7,719 Cr*	56%	Mid	→	Average	Coastal Road Marine sections in full swing; Anjikhad Bridge 60% complete.
Hydro	~₹2,619 Cr*	19%	High	↑	Above	Nikachhu 93% complete; Tehri PSP machine hall work in full swing.
Nuclear/ Special	~₹1,792 Cr*	13%	High	→	Above	BARC Tarapur (70%) and RAPP 7&8 (97%) near completion.
Steiner AG	₹7,365 Cr	N/A	Variable	↓	Below	Transitioning to RE development; CHF 1.5B track record with pension funds.

**Estimated based on concall percentage distribution of 13,784 Cr backlog.*

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue Growth	Targeting 20%+ growth next year (FY24).	Requires ~₹1,500 Cr+ quarterly execution.	Delayed due to liquidity.	Medium
Guidance	Interest Cost	Reduction from ₹950 Cr to ₹400 Cr annually.	Current Qtr ₹137 Cr implies ₹548 Cr; needs further de-leveraging.	**Delivered** (Pivot)	Low
Guidance	Order Intake	Pipeline of ₹17,000 Cr for H2 FY23.	Needs ~25-30% win rate to hit growth targets.	New focus.	Medium
Strategy	Asset Sales	Close BFHL (NH34) sale in "coming weeks."	Binary event.	Final documentation.	Low
Strategy	Bidding	Focus on urban infra/hydro (₹5k-6k Cr mega projects).	Strategic JVs required.	Historical strength.	Low
Macro	Interest Rates	Average debt cost of 11-11.5% is fixed.	Protection against inflation/RBI hikes.	Fixed-rate NCDs.	Low
Balance	Deleveraging	Utilize arbitration BG facility to prepay debt faster.	Event-driven (court awards).	Bank sanctioned.	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Saurab (Ind. Shareholder)	Debt	Financials	"Are all the approvals in place [for debt resolution] or is some kind of final approval still awaited?"	Arjun Dhawan confirmed that everything regarding the resolution plan has been successfully completed. This signals the definitive end of the restructuring overhang and allows the company to focus purely on operations.	None	5.0	Clear and verified
2	4.0	Hitesh Agarwal	Growth	Business Overview	"What is the revenue growth rate for the next two years and what will be the EBITDA margins?"	Management expects 10-12% growth on current revenue with mid-teens margins, though the VC targets 20%+ growth as new projects mobilize. This implies a conservative base case for FY24 with significant upside if bidding win-rates improve.	None	4.0	Directiona evidence
3	4.5	Riddhi	Financials	Financials	"There is an increase of 1,000 crore in non-current rate receivables... simultaneously there is a 1,000 crore increase in borrowings."	CFO Girish Gangal explained that unpaid past interest and various loans were merged into fresh NCDs under a single borrowing head post-resolution. This	None	4.0	Accountir clarity

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						reclassification confirms the balance sheet "clean-up" but explains the optical spike in standalone debt figures.			
4	3.5	Hitesh Agarwal	Liquidity	Financials	"What are the plans for the QIP and if you could give any timelines?"	Dhawan indicated they will time the QIP for when growth-related liquidity is needed, ensuring they are in a "comfortable position" currently. This suggests dilution is not immediate but remains a lever for large-scale project participation.	Specific timeline	3.0	Hedges o timing
5	5.0	Hitesh Agarwal	Governance	Governance	"Do the promoters plan to reduce encumbrance on their shareholding?"	Management confirmed the goal is to reduce encumbrance, noting only part of the shares are currently pledged. The reduction in holding was framed as a result of promoter-level deleveraging, which is a key credibility watchpoint for investors.	Specific deleveraging path	2.0	Defensive tone
6	4.5	Avinash	BGs	Capex & Allocation	"What kind of bank guarantees are you talking	HCC has 5,000 Cr in sanctioned operational	None	5.0	Specific and quantified

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					about [getting released]... what is the interest rate we pay?"	BG limits with substantial "dry powder" now available for new business. This is a primary catalyst for revenue re-rating as bidding was previously constrained by the lack of BGs.			
7	4.0	Avinash	SPV	Financials	"Does HCC standalone have recourse in case we realize more than what it is meant for [in the SPV]?"	Management confirmed that any realization from the SPV's claims/ awards exceeding the 2.25x debt cover flows back to HCC. This provides a massive long-term "hidden equity" value if historical claims are settled favorably in court.	None	4.5	Structural insight
8	4.0	Mayank	Steiner	Business Overview	"Steiner AG, there is a lot of reduction going on... can you throw some light on that?"	Dhawan explained the "lumpiness" is due to Switzerland's 3-5 year permission cycle for RE development and recent sectoral caps hit by pension funds. This frames the Steiner weakness as a timing issue	None	3.5	Qualitativ context

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						rather than a structural decline in the Swiss market.			
9	4.5	Ashish	Asset Sale	Capex & Allocation	"When do you expect the closure of the sale of the road asset and what kind of liquidity do you expect?"	The BFHL sale is expected to close in the coming weeks, providing ₹600 Cr in base equity and a ₹300 Cr securitization facility. This ₹900 Cr total liquidity inflow is the immediate fuel for mobilization and debt prepayment.	None	5.0	Specific timeline

PATTERN FLAGS & SENTIMENT * **The "Clean-Up" Relief:** The primary anxiety across questions was whether the debt resolution was *actually* finished. Management's repeated confirmation (Verdict: Saurab, Q1) moved the sentiment from skepticism to relief. * **Promoter Credibility:** Multiple analysts (Hitesh, Mayank) questioned the drop in promoter holding. Management's defensive posture—preferring to discuss "offline"—indicates this remains a sensitive point that will resurface if the stake drops further. * **Bidding Readiness:** Analysts are skeptical of HCC's ability to win projects after being dormant. Management's response highlighting the ₹5,000 Cr BG limit and the ₹17,000 Cr pipeline was a strong counter-signal of readiness.

Analyst Sentiment Verdict: Analysts were generally appreciative of the management's "perseverance" in closing the resolution plan (Ref: Rakshit), but remained forensic regarding the balance sheet reclassifications. Friction shifted from "will they survive" to "how fast can they grow." The credibility of the interest reduction (₹137 Cr this quarter) was the most convincing proof-of-concept for the turnaround.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY23)	This Quarter (Q2 FY23)	Direction
Debt Status	100% Lender Signatures	**Resolution Completed**	↑
Interest Cost (Standalone)	□243.1 Cr	□136.9 Cr	↑
EBITDA Margin	10.5%	18.3%	↑
Bidding Capacity	Constrained (Pending resolution)	□5,000 Cr BG Limits Available	↑
Liquidity Outlook	Uncertain (Pending BFHL)	□600 Cr Equity + □300 Cr Loan confirmed	↑
Promoter Holding	~36% (Rights Issue peak)	~18.5% (Post-reduction/encumbrance)	↓
Steiner Revenue	□1,242 Cr	□1,183 Cr	↓
RDHL (NH34 P5)	Claim Pending	NHAI deposited □317.6 Cr in court	↑

INVESTOR NOTES: * **Earnings Quality:** The standalone PAT (□312.8 Cr) is low-quality as it is dominated by the □223.3 Cr restructuring gain. However, the core EBITDA expansion to 18.3% suggests operational health is returning. * **Working Capital Lever:** The reclassification of □1,000 Cr into borrowings represents the formalization of "hidden" interest liabilities into structured debt. The CFO-to-PAT ratio is currently non-comparable due to the massive one-off resolution entries. * **Thesis Change: Yes (Positive).** The thesis has transitioned from a binary "default or survive" event to a "deleveraging growth" story. The release of BGs and the halving of interest costs are the two most material fundamental changes in the company's 100-year history.

STOP.