Hindustan Construction Company Ltd — Nov 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat (Balance Sheet) / Miss (Order Inflow) **One-line:** The "binary event" has finally triggered—the deconsolidation of the Debt SPV (Prolific Resolution) has slashed ₹3,300 Cr of debt, fundamentally repairing the balance sheet; however, the order book continues to burn (down 9% QoQ) without major new wins, shifting the risk from insolvency to growth stagnation.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Beat	Consolidated debt reduced by □3,300 Cr vs Q1 promise; Standalone PAT profitable at □52.3 Cr.	□
Earnings Quality	Low	PAT includes a □24 Cr one-off equity gain from debt prepayment; core execution revenue declined QoQ.	□
Guidance Confidence	Neutral	Delivered on the Sept 30 SPV deadline, but "Growth" guidance remains aspirational with zero new standalone wins.	□
Management Credibility	Improving	Followed through on the complex SPV investor induction; timeline slippage has finally stopped.	□
Business Quality Signal	Improving	Transitioning from a "Distressed Contractor" to a "Niche EPC Specialist" with a cleaner capital structure.	□
Key Q&A Exchange	Q2 + SPV Accounting	Interest costs to drop by ~□100 Cr/quarter at consolidated level as SPV moves to JV accounting.	□
The Street's Primary Anxiety	Order Depletion	Backlog fell to □12,344 Cr (from □13,568 Cr); management claims a □20k Cr pipeline to offset the burn.	□
Capital Cycle Stage	Consolidation	Exiting debt restructuring; gearing up for a potential Rights Issue to fund new bidding.	□
Margin Trajectory	Stable	Standalone EBITDA margins at 14.4% vs 12.6% in Q1; helped by higher-margin variations (□900 Cr).	□
Pricing Power	Stable	Focus on >□2,000 Cr complex projects (Hydro/Nuclear) limits competition from smaller players.	□
FCF Conversion & Quality	Distorted	Debt de-recognition creates a massive accounting gain/liability shift rather than pure operational FCF.	□
Competitive Moat Signals	Stable	Completion of signature jobs (Sone Bridge, Bistan Lift) maintains technical pre-qualification status.	□
Balance Sheet Strength	Adequate	Consolidated debt effectively halved to ~□2,000-2,500 Cr range; interest coverage to improve materially.	□
Working Capital Efficiency	Stable	Inventory and work-in-progress are being converted as major projects (Mumbai Metro/Coastal Road) hit 70-80% completion.	□
Mgmt Guidance Track Record	Mixed	Accurate on operational milestones; delivered on SPV; but remains silent on exact Rights Issue timing.	□
Key Vulnerability	Revenue Gap	Shrinking backlog + long gestation of Hydro/Nuclear bids could lead to a revenue "air pocket" in FY25.	□
Management Tone	Confident/Steady	Arjun Dhawan emphasized "responsible growth" and "return of capital" from subsidiaries.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The 50% debt reduction is now a reality, not just a promise. The removal of Prolific Resolution as a subsidiary on Sept 30, 2023, eliminates □3,300 Cr of debt from the consolidated books, which will save ~□100 Cr in quarterly interest. Standalone profitability is sustaining, and the divestment of the loss-making Steiner Construction SA in Switzerland (CHF 58.8M revenue, CHF 1M loss) will further protect consolidated margins. * **Negatives:** New order wins are noticeably absent. The only backlog growth came from □900 Cr in variations (add-ons to existing work). The standalone revenue of □1,138.8 Cr is down 7% QoQ and 9% YoY, suggesting that while execution is "on track," it is not accelerating. * **Street Concern:** Analysts are fixated on the "Order Book Burn." HCC is executing ~□1,200 Cr/quarter but winning zero new standalone projects. Management's response—that they are targeting a □20,000 Cr pipeline and bidding solo (no JVs)—

suggests a high-stakes bet on large-ticket wins in the next two quarters. * **Forward Watchpoint:** The induction of a buyer for the Steiner construction business and the launch of the Rights Issue. These will be the final steps to unlock working capital for the next growth cycle.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q2FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (Standalone)	□1,138.8 Cr	↓ 8.8%	↓ 7.4%	↓	Volume decline; execution of legacy backlog is steady but no new projects started yet.
Total Income (Consol)	□1,832.6 Cr	↓ 18.8%	↓ 28.5%	↓	Impacted by exclusion of Steiner Construction SA (discontinued operations).
EBITDA Margin (Standalone)	14.4%	↓ 390bps	↑ 180bps	□	Lower YoY (18.3% base), but improved QoQ; bolstered by project variations.
PAT (Standalone)	□52.3 Cr	↓ 83.3%	↓ 0.8%	□	YoY comparison distorted by □312.8 Cr (includes exceptional items). Core PAT stable.
Order Book (Standalone)	□12,344 Cr	↓ 14.2%	↓ 9.0%	↓	Depleting backlog as execution outpaces new order wins (zero standalone wins).
Order Inflows (Consol)	□1,177 Cr	Not in doc	↑ 119%	↑	Driven by Steiner (□277 Cr) and Standalone variations (□900 Cr).
Execution Rate	8.4%	↓	↓	↓	(Standalone Revenue / Opening Order Book). Decelerating slightly.
Book-to-Bill (x)	2.7x	↓	↓	↓	Declining from 3.8x (Q1FY23); urgent need for new orders to sustain revenue.
Consolidated Debt	~□2,200 Cr*	↓ 63%	↓ 58%	↑	Reduced by □3,300 Cr via SPV de-recognition on Sept 30.
Steiner AG Turnover	□145.9 Cr	↓ 87.7%	↓ 88.3%	↓	CHF 15.9M. Sharp drop as construction revenue (CHF 58.8M) moved to discontinued ops.
Steiner AG PAT	□6.2 Cr	↑ 100%	↓ 36.7%	□	CHF 0.7M. Profitability maintained despite massive volume shift to discontinued ops.

**Estimated based on Q1 debt of 5,200 Cr minus 3,300 Cr reduction.*

2B. SEGMENT BREAKDOWN

Segment	Backlog (□ Cr)	% of Backlog	Margin	Trend	vs Co. Avg	Key Development
Transport	~□7,400*	60%	Stable	→	In-line	Mumbai Coastal Road & Metro 3 structural works nearing completion (70-80%).
Hydro	~□1,800*	15%	High	↑	Above	TBM operations at Vishnugad Pipalkoti commenced; Nikachhu (Bhutan) 99% done.
Nuclear/ Special	~□1,400*	11%	High	↑	Above	Rajasthan Atomic 7,8 project (99% complete); focusing on new BARC/NPCIL bids.
Water	~□1,700*	14%	Standard	→	Below	Bistan Lift Irrigation completed and certificate received.

**Sectoral spread applied to 12,344 Cr backlog based on management commentary.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Order Wins	Target □7,000-10,000 Cr intake for FY24.	Needs □7,000 Cr+ in H2 (Q3+Q4). Zero standalone wins in H1.	Underperforming	High
Guidance	Debt	□3,300 Cr reduction via Prolific SPV.	ACHIEVED Sept 30, 2023.	Delivered	Low
Guidance	Steiner Divestment	Sell construction business to Demathieu Bard (France).	Exclusivity ongoing; target closure "in a few weeks" (by Dec 2023).	On track	Medium
Strategy	Bidding	Focus on □2,000 Cr+ standalone bids.	Pipeline of □20,000 Cr identified; L2 position in Kanpur Metro validates pricing logic.	Improving	Medium
Strategy	Rights Issue	Appropriate time to raise equity for working capital.	Resolution passed; execution depends on stock price/market conditions.	Delayed	Medium
Macro	Sector Focus	Pumped Storage, Hydro, and Railway Tunnels.	Strong alignment with Govt's green energy/rail targets.	On track	Low

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Sanjeev	Ownership	Governance	"Regarding our arrangement with Steiner AG, so how much percentage we hold there."	Management confirmed HCC holds 100% and it remains a core subsidiary despite current marginal losses. This reaffirms Steiner is an integral part of the valuation, even as its construction arm is divested.	None	5.0	Clear and quantified
2	4.0	Sanjeev	Rights Issue	Financials	"You had announced intention of coming out with rights... is there any thought about it?"	Management stated they are considering it and will launch at the "appropriate time." This signals that while the board is ready, they are likely waiting for the SPV de-leveraging to reflect in the stock price first.	Specific timeline	3.0	Vague
3	5.0	Mahesh	Steiner Volatility	Financials	"What leads to this volatility [in Steiner revenue and profit]... do we still see ourselves owning this?"	Management explained volatility is driven by the timing of real estate development exits (lumpy sales) and construction is being sold to stabilize the business. The intent is to return capital to the parent, marking a transition from "managing losses" to "harvesting value."	None	4.0	Strategic intent
4	5.0	Mahesh	Debt Decon	Financials	"In third quarter, what would	Management expects consolidated	Exact decimal figure	4.5	Specific data

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					the approximate interest cost would look like [post-SPV removal]?"	interest costs to drop by at least □100 Cr per quarter as the SPV moves to JV accounting (49% stake). This structural de-leveraging will immediately boost Consolidated PAT from Q3 FY24 onwards.			
5	4.0	Neeraj	Steiner Value	Business	"Can you give some colour on Steiner real estate business... cash flow that you can get out of that business?"	Management deferred details to a future "special analyst call" once the SPA for the construction unit is signed. While frustrating for short-term models, it suggests a significant reorganization is underway that management wants to present comprehensively.	Current cash flow data	2.0	Deflected
6	4.5	Neeraj	Bidding	Strategy	"20,000 crores [pipeline]... how is HCC placed in the future potential orders?"	Management is focusing on Hydro, Pumped Storage, and Railway Tunnels where they have technical moats. This niche focus is a protective measure against the aggressive competition seen in plain-vanilla road EPC.	None	4.0	Directional
7	4.0	Suriya	Hydro Risks	Macro	"Recently there has been two accidents in hydro power	Management believes these incidents will lead to more robust pre-bid	None	3.5	Qualitative

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					projects... how does these affect... project launches?"	engineering and geo-technical studies but won't stop the sector growth. This implies potentially longer tender cycles but more technically demanding (higher margin) jobs for survivors like HCC.			
8	5.0	Ravi Kiran	Order Wins	Business	"Have we got any orders for this quarter? New orders to the existing order book?"	Management admitted zero fresh standalone orders, with the □900 Cr increase coming solely from variations. This confirms the order book is in a "burn-down" phase, putting immense pressure on H2 bid conversions.	None	5.0	Honest admission
9	4.5	Sanjeev Damani	SPV Liquidity	Financials	"Are any there any awards that got realized and debts were reduced [in the SPV]?"	Management clarified that while some awards were realized, there is no "material" debt reduction in the SPV yet, but liquidity is ample for 12-18 months. This tempers expectations for a quick "windfall" debt reduction beyond the initial □3,300 Cr carve-out.	None	4.0	Realistic
10	4.0	Chirag Shah	Vivad Se Vishwas	Financials	"Vivad Se Vishwas... have we evaluated any	Management is evaluating cases individually (65-85% settlement range) and	Specific projects selected	3.5	Evaluative

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					thoughts over that?"	today's extension of the scheme to Dec 31 gives them more time to negotiate. This remains a "liquidity wildcard" that could accelerate cash flows at the cost of some book value haircuts.			
11	4.5	Chirag Shah	Bidding Pace	Strategy	"When do you expect your bidding process... to maintain the order book?"	Management is targeting 15-20 bids this year with an average "sweet spot" of 2,000 Cr+ per project. This shift toward larger, standalone bids is a departure from their previous JV-heavy, smaller-project approach.	None	4.0	Quantified
12	4.0	Neil	Cube Deal	Financials	"Around 900 crores from the Cube highways deal... is that deal on track?"	Management confirmed they are expecting cash flows based on the March contract, which will be used for debt repayment or working capital. This provides a secondary liquidity cushion independent of the SPV.	None	3.5	Directional

PATTERN FLAGS & SENTIMENT * **The Steiner "Black Box":** Analysts (Mahesh, Neeraj, Neil) were intensely curious about Steiner AG's volatility and the construction business divestment. Management's posture was one of "controlled transition"—they are clearly trying to isolate the profitable real estate arm from the loss-making construction arm. This transparency is higher than in previous quarters, though the refusal to give exact cash flow numbers until a "special call" keeps a minor overhang. * **Order Book Depletion vs. Strategic Restraint:** A recurring theme was the lack of standalone wins. Analysts were concerned about the 12,344 Cr backlog (shrinking), while management (Santosh Rai, Arjun Dhawan) countered with a "high hit-ratio" and "standalone bid" philosophy. This tension is the primary battleground for the stock's valuation: the market wants volume, but management is prioritizing margin and balance sheet health. * **SPV Deliverance:** The mood regarding debt has shifted from "if/when" to "how much interest saved." Management was very confident on this front, providing a clear □100 Cr/quarter interest savings figure. This has significantly boosted management's credibility.

Analyst Sentiment Verdict: □Cautiously Optimistic. The successful deconsolidation of the SPV debt is a massive relief for the street. Friction now centers on the "Growth Engine"—analysts are worried the company is being *too* selective in bidding. Management's credibility is at a multi-year high following the SPV execution, but they must now prove they can win standalone projects without JVs to sustain the top line.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY24)	This Quarter (Q2 FY24)	Direction
Debt Level (Consol)	□5,200 Cr	~□2,200 Cr (De-consolidated □3,300 Cr)	↑
Interest Cost (Consol)	□256 Cr	~□150 Cr (Expected run-rate for Q3)	↑
Order Backlog	□13,568 Cr	□12,344 Cr	↓
SPV Status	Subsidiary (Waiting for investor)	De-recognized (Ceased to be subsidiary)	↑
Steiner Construction	Part of Steiner AG operations	Moved to "Discontinued Operations"	□
Standalone Bidding	Pipeline identified	L2 position on Kanpur Metro; solo bidding focus	↑
Operating Revenue	□1,230 Cr (Standalone)	□1,138.8 Cr (Standalone)	↓
Management Tone	Cautious / Internal-looking	Confident / Growth-oriented	↑

INVESTOR NOTES: * **Earnings Quality:** Core execution margins are improving (14.4% EBITDA), but Q2 PAT was helped by a □24 Cr debt prepayment gain. The "true" test of profitability starts in Q3 when the □100 Cr interest saving hits the P&L. * **Working Capital Lever:** The deconsolidation of the SPV doesn't just reduce debt; it releases management bandwidth. However, the □900 Cr variations in the backlog suggest HCC is currently living off "project creep" rather than "project wins." * **Thesis Change: No.** The thesis remains a "Balance Sheet Recovery Play," but we have now entered Phase 2: "The Search for Growth." With the debt monkey off its back, HCC must convert its □20,000 Cr pipeline into wins by Q4 FY24, or it risks a revenue "air pocket" in FY25.

STOP HERE.