

Hindustan Const. Co. Ltd.

₹ 16

*The Awakening of the Giant***Buy**

Mar 28, 2014

Company Background

Hindustan Construction Company (HCC) is one of India's leading construction companies catering to large scale projects across most infrastructure related sectors in India. It has always looked to create competitive advantage by adopting world class practices and operational processes and is one of the pioneers in promoting responsible infrastructure development. With a legacy of over 100 years it has many firsts to its credit. With over 198 projects in its fold and an order book of Rs 150 bn plus the company has already demonstrated its strength and is trying to focus further in its core areas like Hydro Power, Water Solutions, Transportation and Nuclear Power. HCC is currently focused on optimising its strategy and operations to overcome the present economic and financial challenges to emerge as an even stronger entity that can best leverage opportunities once the external business environment regains its growth oriented trajectory.

Key Highlights

- ➔ HCC's 50% JV with GVPR Engineers Ltd, has been awarded a contract for diversion of flood water under Yettinahole Diversion Project by Karnataka Neeravari Nigam Ltd. The contract value is Rs. 903.83 Cr over period of 3 yrs.
- ➔ In Feb 2014 HCC has also secured orders worth 725 Cr individually and catering to various segments like bridge construction, water supply, setting up of Atomic Research Facility and petrochemical project.
- ➔ In Jan 2014 HCC received a Letter of Award from IRCON International Ltd for Construction of One Tunnel and Two bridges between Aprinchala and Sumber Stations on Dharam and Qazigund Section of the Udhampur-Srinagar-Baramulla New Broad Gauge Railway Line Project in Jammu & Kashmir. The value of the contract is Rs. 442.52 Crore to be completed in 48 months.
- ➔ Lavasa is back on track. The requisite environment clearances for the development of the two principal towns Dasve and Mugaon are now firmly in place. The debt raised for the project which went unserviced for some time has been restructured after the Central environmental clearances and in fact, the banks have provided some extra line of credit as well. Confidence is back for Lavasa; and the next phase of development is well on its way.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	39,802.4	41,447.4	39,881.4
Rev. growth (%)	14.56	4.13	(3.78)
EBITDA (INR mn)	6,043.2	5,710.8	5,188.6
Net profit (INR mn)	710.0	(2,222.5)	(1,376.4)
Shares outstanding (mn)	606.5	606.6	606.6
EPS (INR)	1.2	(3.7)	(2.3)
EPS growth (%)	(56.41)	(412.99)	(38.07)
P/E (x)	31.1	(7.0)	(5.9)
RONW (%)	4.5	(16.9)	(14.7)
ROCE (%)	1.5	(4.4)	(3.1)

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Info Codes

Reuters	: HCNS.BO
Bloomberg	: HCC@IN
NSE	: HCC
BSE	: 500185

Market Data

52 Wk Range (₹)	: 17 / 8
Shares in Issue (mn)	: 606.6
Mkt. Cap (₹ bn)	: 9.87
BSE 2 Wk Avg Vol	: 426000

Share Holding Pattern (%)

Promoters	: 39.86
DII's	: 6.62
FII's	: 15.85
Others	: 40.67

Investment Theme

On paper, the Government of India has set a massive target for doubling investment in infrastructure from Rs 20.5 tn to Rs. 41 trillion during the 12th Plan (2012–2017). The total investment in infrastructure is proposed to be increased to more than 10.5% of GDP by the end of the plan period. However since the government was hit by a series of csams in the last two years the decision making was largely hampered. If even three-fourths of this planned investment is actually realised, it can propel India's economic growth back to a higher trajectory and, with it, significantly improve the fortunes of infrastructure Company. After a great deal of stalling for all infra Co's, the election seems to give up some new hope. We feel HCC would be among the few other companies whose results and profits would be highly altered by the next elections. We therefore are bullish on HCC.

Orders back in Order

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	39327.9	40297.6	2.47	38540.1	(4.36)
Other Income	500.0	1228.3	145.66	1354.9	10.31
Change in Stocks	1901.6	0.0	(100.00)	0.0	-
Raw Material Con.	12219.5	11200.4	(8.34)	13062.9	16.63
Employee Exp.	4676.4	4392.4	(6.07)	4020.3	(8.47)
Indirect Taxes	1741.4	1792.8	2.95	2143.2	19.54
Other Exp.	17049.0	18429.5	8.10	15480.0	(16.00)
Operating Exp.	33784.7	35815.1	6.01	34706.4	(3.10)
Operating Profit	5543.2	4482.5	(19.14)	3833.7	(14.47)
Total Interest	3399.6	5611.4	65.06	5490.4	(2.16)
Gross Profit	2643.6	99.4	(96.24)	(301.8)	(403.62)
Net Dep.	1526.9	3284.2	115.09	1634.0	(50.25)
Total Taxation	406.7	(962.3)	(336.61)	(559.4)	(41.87)
Net Profit/Loss	710.0	(2222.5)	(413.03)	(1376.4)	(38.07)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	40,318.8	51,072.4	58,203.2	57,907.4
Equity Share capital	303.3	606.6	606.7	606.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	14,868.5	14,615.3	12,341.2	11,021.1
Long Term Loans	18,583.7	23,654.5	28,026.7	33,337.3
Short Term Loans	6,563.3	12,196.0	17,228.6	12,942.3
USES OF FUNDS	40,318.8	51,072.4	58,203.2	57,907.4
Gross Block	18,141.8	19,874.9	20,562.2	20,628.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	6,644.9	8,032.1	9,317.5	10,525.0
Net Block	11,496.9	11,842.8	11,244.7	10,103.9
Capital Work in Progress	348.5	256.9	257.6	122.7
Investments	4,086.9	5,313.1	5,847.4	6,012.2
Current Assets	47,552.1	67,753.6	73,069.7	73,118.0
Less : Current Liabilities	23,165.6	34,094.0	32,216.2	31,449.4
Total Net Current Assets	24,386.5	33,659.6	40,853.5	41,668.6
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	3,966.8	5,193.1	5,847.3	6,012.1
Mkt Val. Quoted Investments	78.3	122.1	11.6	14.2
Contingent Liabilities	31,015.8	23,067.0	21,468.1	22,532.6
Dividend (%)	80	40	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 13	Jun 13	Sep 13	Dec 13
Net Sales	9,829.20	11,424.10	8,901.30	8,520.20
Cost Of Sales	8,939.00	9,411.80	8,012.10	6,767.60
Operating Profit	890.20	2,012.30	889.20	1,752.60
Recurring Income	123.20	152.90	1,122.90	280.30
Adjusted PBDIT	1,013.40	2,165.20	2,012.10	2,032.90
Financial Expenses	1,353.70	1,488.60	1,522.90	1,565.50
Depreciation	386.80	371.00	374.90	365.20
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	(727.10)	305.60	114.30	102.20
Tax Charges	0.00	113.30	0.00	48.30
Adjusted PAT	(727.10)	192.30	114.30	53.90
Non Recurring Items	224.50	0.00	201.70	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	(502.60)	192.30	316.00	53.90

52 Week Index Relative Percentage Appreciation



HCC vs SENSEX

Risks Associated

Though the Government has spurred its Planned Expenditure in the Infrastructure segment, Implementation still remains a big stumbling block for many a companies. In fact, the critical segments of infrastructure including roads, railways and ports, have under-achieved their planned investment targets by 22%. The story of poor execution and delivery only got worse in 2012-13. The status report of major central-sector projects costing Rs 150 crore and above shows that out of the 566 projects, five were ahead of schedule, 226 on schedule, and 258 (45%) had been delayed with respect to their latest scheduled date of completion. Issues like delays in land acquisition, municipal permission, supply of materials, award of work and operational failures continued to drag down implementation of these projects. This is bundled with a severe problem of liquidity in both the Government share and the Private investment. These funding pressures have created a major cash crunch across the entire infrastructure development supply chain. Apart from the problem of liquidity, the sector is facing a major problem of lack of decision making. In light of the revelation of several scams in the last few years, there is an environment of mistrust within government agencies and the agencies have responded by freezing decision making to avoid taking any responsibility. Since much of the infrastructure space relies on the government or its agencies as direct developers or regulators, such inertia in decision making impacts implementation across projects.

In a Nutshell

With nearly a century's heritage in construction, HCC has evolved into an engineering and construction leader. It has established a vast presence and gained recognition in the sectors of Hydro Power, Water Solutions, Transportation and Nuclear Power. Through every project and at every step, it aims to set new benchmarks and deliver world class infrastructure. In Hydro Power HCC's accomplishments in this geologically complex area of work include several first-of-its-kind dams, barrages, tunnels, underground power stations and surface power stations, along with water conductor systems like surge shafts, pressure shafts and penstocks. Its Water solutions include specialized systems to offer total solutions for high value projects, such as urban water supply systems, pumping stations, water treatment plants and lift irrigation for the rural sector. HCC has also executed a number of challenging projects including the world's longest barrage. HCC has built over 50% of India's nuclear power generation capacity. For all 8 phases of the Rajasthan Atomic Power Project HCC has been the construction partner since the first Unit completed in 1972. HCC specializes in pre-stressed containment structures for reactor buildings and has executed India's largest nuclear power plant in Kudankulam (2X1000 MW) comprising the country's first Pressurized Light Water Reactors. HCC has also built some of the most remarkable transportation projects in India. Be it India's first sea link or metro rail systems or a railway tunnel deep in the mountains connecting Jammu & Kashmir. With its technical knowledge and project management experience the company guarantees the successful execution of futuristic and technologically advanced construction. Looking forward to the growth offered in the Infrastructure segment in India with the government spending spurting in each of its 5 year plan. We feel bullish on the Company.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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