

Hindustan Const. Co. Ltd. ₹ 34**Lavasa the Heaven !****Buy**

Dec 5, 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 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 had an order book of Rs 14,249 Cr as on 31st March 2014 and further till date has won nearly 1500+ crores of fresh projects in the last few days. Further it was at the L1 position in 9 tenders worth Rs. 3100 Cr projects as on Sep 24, 2014 which can be awarded soon .
- ➔ Lavasa Corporation Ltd, an arm of Hindustan Construction Company (HCC), is planning to raise Rs 750 crore through an initial public offering. Lavasa has filed a draft red herring prospectus with the Securities and Exchange Board of India and also has received a letter of observation in this regards. HCC holds 68.7% in Lavasa, the materialization of the whole process would result in unlocking of an investment of a very high level.
- ➔ HCC Concessions Ltd. a subsidiary of HCC has announced the sale of Nirmal BOT Ltd. for which it will receive a consideration of Rs. 640 mn and Rs. 167 mn of an arbitration award won by Nirmal BOT.
- ➔ HCC has taken over the balance 34% shareholding in Steiner AG the major group developing Lavasa. Thus the Swiss company is now a 100% subsidiary of HCC. An Interesting point is that Steiner AG has turnaround in the last 4 years and has become profitable ever since HCC raised its stake in it.

Key Financials

Year Ended 31 st	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	41,447.4	40,329.7	42,796.6
Rev. growth (%)	4.1	(2.7)	6.1
EBITDA (INR mn)	5,710.8	5,332.9	8,572.2
Net profit (INR mn)	(2,222.5)	(1,376.4)	806.4
Shares outstanding (mn)	606.6	606.6	606.6
EPS (INR)	(3.7)	(2.3)	1.3
EPS growth (%)	(413.0)	(38.1)	(158.6)
P/E (x)	(7.0)	(6.1)	12.8
RONW (%)	(16.9)	(14.7)	6.2
ROCE (%)	(4.4)	(3.1)	1.3

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Info Codes

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

Market Data

52 Wk Range (₹)	: 12 / 49
Shares in Issue (mn)	: 606.6
Mkt. Cap (₹ bn)	: 21.86
BSE 2 Wk Avg Vol	: 988000

Share Holding Pattern (%)

Promoters	: 43.51
FII's	: 12.45
DII's	: 3.58
Others	: 40.46

Past Performance

HCC was recommended a BUY Rs 16 on March 28, 2014, reached its target of 20% appreciation on April 10, 2014.

Investment Theme

Lavasa is finally back on track, after almost three years of delays on account of government intervention. HCC's 100% subsidiary Steiner AG of Switzerland has taken over the construction work of the project. 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 unserved 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 so is the process of its IPO which will hugely benefit the HCC.

Permission Granted !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	40297.6	38540.1	(4.36)	40630.3	5.42
Other Income	1228.3	1499.2	22.05	2157.3	43.90
Change in Stocks	0.0	0.0	-	0.0	-
Raw Material Con.	11200.4	13062.9	16.63	10505.0	(19.58)
Employee Exp.	4392.4	4020.3	(8.47)	3884.6	(3.38)
Indirect Taxes	1792.8	1720.9	(4.01)	2210.4	28.44
Other Exp.	18429.5	15902.3	(13.71)	17615.4	10.77
Operating Exp.	35815.1	34706.4	(3.10)	34215.4	(1.41)
Operating Profit	4482.5	3833.7	(14.47)	6414.9	67.33
Total Interest	5611.4	5634.7	0.42	6225.6	10.49
Gross Profit	99.4	(301.8)	(403.62)	2346.6	(877.53)
Net Dep.	3284.2	1634.0	(50.25)	1446.1	(11.50)
Total Taxation	(962.3)	(559.4)	(41.87)	94.1	(116.82)
Net Profit/Loss	(2222.5)	(1376.4)	(38.07)	806.4	(158.59)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 11	Mar 12	Mar 13	Mar 14
SOURCES OF FUNDS	51,072.4	58,203.2	58,333.8	61,330.7
Equity Share capital	606.6	606.7	606.7	606.7
Share Application Money	0.0	0.0	426.4	526.4
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	14,615.3	12,341.2	11,021.1	12,027.3
Long Term Loans	23,654.5	28,026.7	33,136.3	32,698.7
Short Term Loans	12,196.0	17,228.6	13,143.3	15,471.6
USES OF FUNDS	51,072.4	58,203.2	58,333.8	61,330.7
Gross Block	19,874.9	20,562.2	20,628.9	20,258.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	8,032.1	9,317.5	10,525.0	11,104.0
Net Block	11,842.8	11,244.7	10,103.9	9,154.0
Capital Work in Progress	256.9	257.6	122.7	49.7
Investments	5,313.1	5,847.4	6,012.2	6,899.5
Current Assets	67,753.6	73,069.7	73,175.0	75,554.0
Less : Current Liabilities	34,094.0	32,216.2	31,080.0	30,326.5
Total Net Current Assets	33,659.6	40,853.5	42,095.0	45,227.5
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	5,193.1	5,847.3	6,012.1	6,899.4
Mkt Val. Quoted Investments	122.1	11.6	14.2	15.4
Contingent Liabilities	23,067.0	21,468.1	22,532.6	23,345.1
Dividend (%)	80	40	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 13	Mar 14	Jun 14	Sep 14
Net Sales	8520.2	11549.0	9853.1	9302.52
Cost Of Sales	6767.6	9839.8	7842.4	7555.5
Operating Profit	1752.6	1709.2	2010.7	1747.0
Recurring Income	280.3	515.6	350.0	333.7
Adjusted PBDIT	2032.9	2224.8	2360.7	2080.7
Financial Expenses	1565.5	1502.4	1561.6	1611.6
Depreciation	365.2	335.1	396.1	364.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	102.2	387.3	403.0	104.7
Tax Charges	48.3	143.3	132.0	37.1
Adjusted PAT	53.9	244.0	271.0	67.6
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	53.9	244.0	271.0	67.6

52 Week Index Relative Percentage Appreciation



HCC vs SENSEX

Risks Associated

Though the Government has spurted 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. 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. It has built over 50% of India's nuclear power generation capacity. 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. With its technical knowledge and project management experience the company guarantees the successful execution of futuristic and technologically advanced construction. The positives for HCC currently are India's long term focus on infrastructure and the nod for the Lavasa IPO in which HCC holds a sizeable stake, the IPO would especially bring out the inherent value of this mammoth investment. Both of which would be beneficial to 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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