

HCC Ltd.

₹ 22

*The Giant may Awaken soon!***Buy**

Aug 12, 2016

Company Background

HCC Ltd. (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 & is among pioneers in promoting responsible infrastructure development. With a legacy of over 100 years it has many firsts to its credit. HCC claims to have executed many landmark infrastructure projects 26% of India's Hydel Power generation and 65% plus of India's Nuclear Power capacities, 3600 plus lane km of Expressways and Highways, 300 km plus of complex Tunnelling & over 350 Bridges. It 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

- ➔ Lavasa Corporation Ltd, an arm of 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 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 has recently won a INR 17.5 bn contract from IRCON for two tunnels and a bridge in Jammu and Kashmir. It will be completed within 30 months.
- ➔ Last year HCC completed a QIP of 133,332,800 equity shares of face value of Rs. 1 each at a price of Rs. 30 per Equity Share aggregating to around 4 bn INR. The current price of the share comes at a discount to QIP price at a time when the order book has grown by 14% plus since then.
- ➔ Government of India has launched several reform measures to boost sectors like roads, railways, power distribution, rural and urban development. The Union Budget 2016-17 has allocated INR 2.21 lakh crore for the sector.
- ➔ Road Projects are being sanctioned at an unprecedented pace and INR 97,000 crore has been earmarked with a plan to award 10,000 kilometres of new road projects in 2016-17.

Key Financials

| Year Ended 31 st | Mar 14 | Mar 15 | Mar 16 |
|-----------------------------|----------|----------|-----------|
| Revenue (INR mn) | 42,561.1 | 42,821.2 | 43,123.4 |
| Rev. growth (%) | 6.03 | 0.61 | 0.71 |
| EBITDA (INR mn) | 9,287.5 | 8,435.0 | 5,139.2 |
| Net profit (INR mn) | 816.5 | 806.4 | (1,376.4) |
| Shares outstanding (mn) | 606.7 | 645.9 | 779.2 |
| EPS (INR) | 1.3 | 1.3 | 1.1 |
| EPS growth (%) | - | (5.26) | (13.49) |
| P/E (x) | 12.75 | 25.91 | 17.98 |
| RONW (%) | 6.65 | 6.16 | 5.95 |
| ROCE (%) | 11.52 | 12.30 | 12.86 |

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Info Codes

| | |
|-----------|-----------|
| Reuters | : HCNS.BO |
| Bloomberg | : HCC:IN |
| NSE | : HCC |
| BSE | : 500185 |

Market Data

| | |
|----------------------|-----------|
| 52 Wk Range (₹) | : 16 / 29 |
| Shares in Issue (mn) | : 779.2 |
| Mkt. Cap (₹ bn) | : 17.25 |
| BSE 2 Wk Avg Vol | : 882000 |

Share Holding Pattern (%)

| | |
|-----------|---------|
| Promoters | : 36.07 |
| Public | : 63.93 |
| Others | : 00.00 |

Past Performance

Recommended on Jun 12, 2015 at Rs 21, Reached Target of 20% appreciation.

Investment Theme

HCC is a business group of global scale, an engineering heritage of 100 years, & some of India's landmark infraprojects. It has constructed 26% of India's Hydel Power, 65% of India's Nuke Power, 3600+ lane km of Expressways & Highways, 300+ km of Tunneling and 350+ Bridges. Its landmark projects include Bandra Worli Sea Link, Mumbai - India's first and longest open sea cablestayed bridge; the Kolkata Metro, Farakka Barrage & India's largest nuclear power plant at Kudankulam to name a few. Today, HCC Ltd. serves the infrastructure sectors of Transportation, Power and Water. HCC is also developing Lavasa City, a planned hill city and one of India's largest urban development & management initiatives. HCC also has a large order Book value and continuous flow of orders further the Lavasa IPO may be a game changer.

Lavasa In Process of Listing.

Financial Statements

Income Statement

(₹ mn)

| Year end | Mar 14 | Mar 15 | % Chg | Mar 16 | % Chg |
|-------------------|----------|----------|--------|----------|-------|
| Net Sales | 40,425.2 | 41,348.0 | 2.3 | 40,524.2 | (2.0) |
| Other Income | 2,135.9 | 1,473.2 | (31.0) | 2,599.2 | 76.4 |
| Change in Stocks | 0.0 | 0.0 | - | 0.0 | - |
| Raw Material Con. | 10,313.5 | 9,438.0 | (8.5) | 9,520.4 | 0.9 |
| Employee Exp. | 3,884.6 | 3,611.1 | (7.0) | 3,703.5 | 2.6 |
| Indirect Taxes | 0.0 | 0.0 | - | 0.0 | - |
| Other Exp. | 19,928.0 | 20,484.6 | 2.8 | 20,311.5 | (0.8) |
| Operating Exp. | 34,126.1 | 33,533.7 | (1.7) | 33,535.4 | 0.0 |
| Operating Profit | 8,435.0 | 9,287.5 | 10.1 | 9,588.0 | 3.2 |
| Total Interest | 6,079.4 | 6,511.3 | 7.1 | 6,898.8 | 6.0 |
| Gross Profit | 2,355.6 | 2,776.2 | 17.9 | 2,689.2 | (3.1) |
| Net Dep. | 1,446.1 | 1,503.0 | 3.9 | 1,358.5 | (9.6) |
| Total Taxation | 103.1 | 456.7 | 343.0 | 481.0 | 5.3 |
| Net Profit/Loss | 806.4 | 816.5 | 1.3 | 849.7 | 4.1 |

4 Years Balance Sheet

(₹ mn)

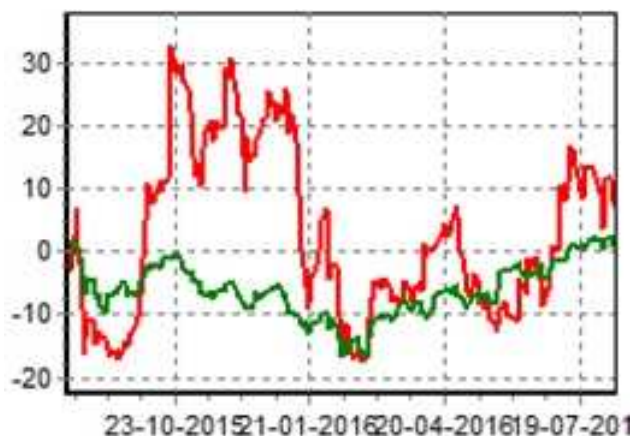
| Balance Sheet as on 31 st | Mar 13 | Mar 14 | Mar 15 | Mar 16 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| SOURCES OF FUNDS | 59,172.8 | 62,161.7 | 64,369.4 | 68,048.2 |
| Equity Share capital | 606.7 | 606.7 | 645.9 | 779.2 |
| Equity Application Money | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity Share Warrants | 0.0 | 160.0 | 0.0 | 0.0 |
| Reserves & Surplus | 11,021.1 | 11,867.3 | 13,228.6 | 17,849.1 |
| Secured Loans | 44,294.9 | 46,058.0 | 48,621.9 | 49,025.7 |
| Unsecured Loans | 3,250.1 | 3,469.7 | 1,873.0 | 394.2 |
| USES OF FUNDS | 59,172.8 | 62,161.7 | 64,369.4 | 68,048.2 |
| Gross Block | 20,628.9 | 20,258.0 | 20,064.6 | 19,498.5 |
| Less : Revaluation Reserves | 0.0 | 0.0 | 0.0 | 0.0 |
| Less : Accumulated Depreciation | 10,525.0 | 11,104.0 | 12,217.2 | 12,807.7 |
| Net Block | 10,103.9 | 9,154.0 | 7,847.4 | 6,690.8 |
| Capital Work in Progress | 122.7 | 49.7 | 62.5 | 16.8 |
| Investments | 6,012.2 | 6,899.5 | 6,928.9 | 5,924.4 |
| Current Assets | 50,249.0 | 49,729.4 | 49,805.7 | 44,769.5 |
| Less : Current Liabilities | 25,975.0 | 26,949.6 | 31,212.5 | 30,289.7 |
| Total Net Current Assets | 24,274.0 | 22,779.8 | 18,593.2 | 14,479.7 |
| Misc. Expenses not writtenoff | 18,660.0 | 23,278.7 | 30,937.4 | 40,936.4 |
| NOTE | | | | |
| Book Value of Unquoted Investments | 6,012.1 | 6,899.4 | 6,928.8 | 5,924.3 |
| Market Value of Quoted Investments | 14.2 | 15.4 | 22.6 | 19.6 |
| Contingent Liabilities | 22,532.6 | 23,345.1 | 12,012.6 | 9,984.5 |
| Dividend (%) | 0.0 | 0.0 | 0.0 | 0.0 |

Quarterly Income Sheets

(₹ mn)

| Quarter Ended | Jun 15 | Sep 15 | Dec 15 | Mar 16 |
|-----------------------|---------|----------|----------|---------|
| Net Sales | 9,357.3 | 10,367.2 | 11,718.8 | 8,993.2 |
| Cost Of Sales | 7,545.5 | 8,487.1 | 9,814.5 | 8,105.0 |
| Operating Profit | 1,811.8 | 1,880.1 | 1,904.3 | 888.2 |
| Other Income | 892.9 | 462.8 | 478.8 | 1,431.3 |
| Adjusted PBDIT | 2,704.7 | 2,342.9 | 2,383.1 | 2,319.5 |
| Financial Expenses | 1,755.9 | 1,702.0 | 1,766.0 | 1,796.4 |
| Depreciation | 350.6 | 333.8 | 316.7 | 327.6 |
| Other Write Offs | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted PBT | 598.2 | 307.1 | 300.4 | 195.5 |
| Tax Charges | 213.8 | 113.3 | 109.0 | 86.7 |
| Reported Profit | 384.4 | 193.8 | 191.4 | 108.8 |
| Extra Ordinary Items | (290.6) | 341.7 | 167.0 | 0.0 |
| Other Non Cash Adjust | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted Net Profit | 93.8 | 535.5 | 358.4 | 108.8 |

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 just over 22%. The story of poor execution and delivery is worse. 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.

Lavas has already filed up applications for listing however the time taken for the whole listing procedure is unsure especially with so many problems with the company on the environment front. These delays could dampen the intrinsic value expression of HCC.

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 65% 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

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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