

HCC Ltd.

₹ 42

Losing Interest !**Buy**

Apr 07, 2017

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 200 projects in its fold and an order book of Rs 160 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

- ➔ Arbitration awards to the tune of INR 1721 Cr have been already awarded to HCC. They will be disbursed when the company submits a Bank Guarantee on the same. While this process is nearing completion. Once this awards are disbursed the debt of the company will further reduce by an equivalent amount thereby reducing the interest costs by INR 60 Cr this is beneficial.
- ➔ HCC has an orderbook value which has grown by 550% over last year considering the nature of business these orders will slowly transform into turnover in another year and a half. This will ensure good growth for the company considering a health operating margin of 12% which the company has managed to maintain.
- ➔ 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 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.

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)	5,139.2	8,435.0	9,287.5
Net profit (INR mn)	806.4	816.5	849.7
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 (₹)	: 18 / 46
Shares in Issue (mn)	: 779.2
Mkt. Cap (₹ bn)	: 41.24
BSE 2 Wk Avg Vol (mn)	: 0.10

Share Holding Pattern (%)

Promoters Holding	: 27.80
Corporate Holding	: 03.15
Domestic Institution	: 33.74
Foreign Institution	: 11.03
Public & Others	: 24.29

Past Performance

Recommended a BUY @ 21 on Jun 12, 2015 reached Target of 20% appreciation in 10 days. Peaked at 40% appreciation during the year.

Investment Theme

HCC is a business group of global scale. With a heritage of nearly 100 years, with some of India's landmark infraprojects. It has constructed 25% of India's Hydel Power, 50% of India's Nuclear Power, 3,500+ lane km of Expressways & Highways, 288+ km of Tunneling & 350+ Bridges. HCC Ltd. serves the infra sectors of Transportation, Power & Water. HCC is also developing Lavasa City, a planned hill city and one of India's largest urban development initiatives. HCC also has a large order Book value and continuous flow of orders further the recent awards when disbursed and the sanction of the Lavasa IPO may be a game changer.

Awaiting Rewards of the Awards !

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	14,479.8
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	Mar 16	Jun 16	Sep 16	Dec 16
Net Sales	11,718.8	8,993.2	7,590.3	8,666.8
Cost Of Sales	9,534.9	8,093.0	7,160.0	7,828.5
Operating Profit	2,183.9	900.2	430.3	838.3
Other Income	478.8	1,425.1	2,129.8	1,493.3
Adjusted PBDIT	2,662.7	2,325.3	2,560.1	2,331.6
Financial Expenses	1,766.0	1,796.5	1,899.9	1,947.4
Depreciation	316.7	327.6	333.6	308.3
Other Write Offs	279.6	5.7	0.0	0.0
Adjusted PBT	300.4	195.5	326.6	75.9
Tax Charges	109.0	86.7	95.8	30.4
Reported Profit	191.4	108.8	230.8	45.5
Extra Ordinary Items	(167.0)	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	358.4	108.8	230.8	45.5

52 Week Index Relative Percentage Appreciation



Main Factors

With Scheme for Sustainable Structuring of Stressed Assets implementation the debt level of HCC has already come down from INR 5,000 crore to almost INR 4,000 crore. An impact of INR 1,000 crore has already happened which will bring down interest cost by about 25% and if INR 1,721 crores of awards which are due also received in this quarter, then the other advantage HCC will get is by way of reduced interest cost because this money will go towards payment of debt saving another INR 60 Cr on interest.

HCC is also targetting the restructure of loans in Lavasa. 72% of the bankers are in faour of HCC if another 3% fallout in line. The rest can also be conmpelled to join the majority. Further since most of the housing units in Lavas fall under the 600 sq meter catagory. It may also be benefitted from the new Infra and Housing policy planned by the Central Government

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. 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 respondend 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 & construction leader. It has established a vast presence & gained recognition in the sectors of Hydro Power, Water Solutions, Transportation & 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 & surface power stations, along with water conductor systems like surge shafts, pressure shafts & 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 & 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 & has executed India's largest nuclear power plant in Kudankulam comprising the country's first Pressurized Light Water Reactors. With its technical knowledge & project management experience the company guarantees the successful execution of futuristic & technologically advanced construction. The positives for HCC currently are India's long term focus on infrastructure & the nod for the Lavasa IPO which will unlock a mammoth size of investment value, in the short term however the major push will be due to the quick process of arbitration awards some of which have already been decided in favour of the company and its a matter of weeks after which it would disburse thus clearing off some more debt in the company and reduce the interest burden.

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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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