

Hindustan Construction Company

Quarterly results disappoint, outlook positive for FY08 -
ALERT

Overweight

Rs98.45

27 April 2007

- **Reported earnings below expectations.** Reported 4Q FY07 PAT was Rs367MM post tax adjustments and below our estimate of Rs400MM. Earnings were boosted by “other income” of Rs125MM, arising out of currency gains on its FCCB. 4Q sales at Rs8,277MM were up 8% yoy and 54% qoq. The results also include an “exceptional income” of Rs154MM on account of JV income and claims, which are typical to the business, thus being of recurring nature. Depreciation and net interest expense was higher than our expectations.
- **Sales growth in FY07 lower, but will pick up next year, according to management.** FY07 sales were up 19% yoy at Rs23,576MM; however, earnings were down 36% yoy due to a reversal of tax benefits under Section 80-IA and a large number of new projects, where mobilization charges were borne up-front but earnings will follow only when threshold revenues are achieved. Some projects were also delayed by natural factors and land procurement. The company has guided towards a 25% revenue growth as a base case and a corresponding profit growth, for FY08. We believe the company can exceed FY08 guidance.
- **Real estate - better visibility over the next three quarters:** Sales in Lavassa are expected to commence in the last quarter of this calendar year. The company is looking for potential sale of a portion of 1,500 acres out of the total complex. This could be a potential trigger for the stock. To date, the company has invested Rs6,000MM in the project and is planning to invest another Rs3,000MM (Rs1,000MM in equity and Rs2,000MM in debt) before the planned sale. Other land projects will also see some sales during the FY08.
- **Bandra Worli losses continue as guided, adjusted earnings and profitability much higher:** During FY07, HCC has booked cRs.700MM in BW losses. Adjusted for these, earnings and margins would be significantly higher and in line with industry norms for HCC’s business mix. This project is expected to be completed by April 2008.

India Construction

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Table 1: HCC: Income statement

Rs in millions, year-end Arch

	3Q FY06	4Q FY06	FY06	3Q FY07	4Q FY07	FY07	4Q yoy	qoq	Y yoy
Net Sales	4557	7681	19870	5361	8277	23576	8%	54%	19%
Cons of RM	2032	3529	8631	1570	2579	7406	-27%	64%	-14%
Staff Cost	336	379	1314	633	614	2087	62%	-3%	59%
Other construction expenses	1500	2869	7381	2365	4003	10964	40%	69%	49%
Other Expenditure	202	229	716	211	359	967	57%	70%	35%
Total Expenditure	4071	7006	18041	4779	7555	21424	8%	58%	19%
EBITDA	486	675	1829	583	722	2153	7%	24%	18%
EBITDA Margin	10.7%	8.8%	9.2%	10.9%	8.7%	9.1%			
Other Income	9	8	61	2	125	199	1457%	6856%	224%
Depreciation	130	147	524	206	244	797	66%	19%	52%
Interest	126	85	414	175	212	620	149%	21%	50%
PBT	238	451	952	204	392	935	-13%	92%	-2%
Reported Tax	12	25	135	65	604	811	2310%	832%	503%
Tax Rate	5%	6%	14%	32%	154%	87%			
Adjusted PAT*	226	426	1248	220	367	793	-14%	67%	-36%
Exceptional items	1	12	431	81	154	244	1189%	90%	-43%
Reported PAT	227	438	1679	220	-212	124	-148%	-196%	-93%
Net Margin	5.0%	5.0%	4.1%	4.1%	4.4%	3.4%			

Source: Company reports.

*Note: Net income is adjusted for tax losses pertaining to previous years.

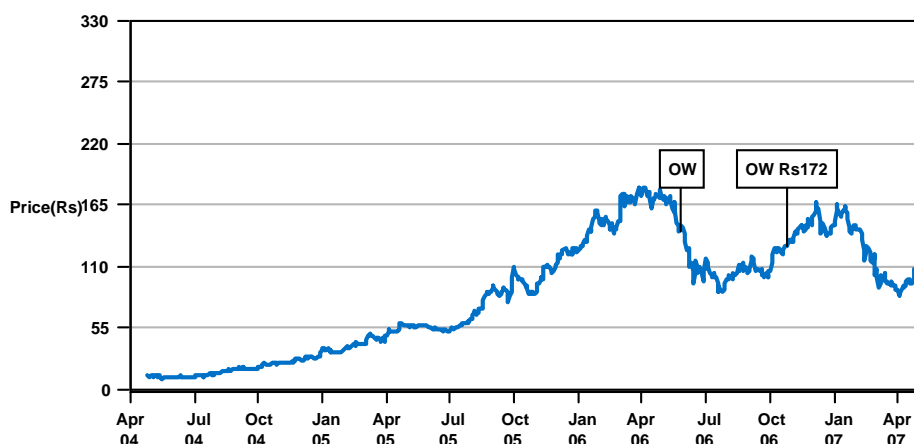
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Hindustan Construction Company (HCNS.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
25-May-06	OW	141.40	-
26-Oct-06	OW	128.20	172.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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