

Market Movement

	Close	Diff	% Chg
BSE 100	7,028.8	-142.5	-2.0%
Dow Jones	13,120.94	15.44	0.12
Nasdaq	2,557.21	2.75	0.11

Turnover

	Rs mn		% Chg
BSE	37,710	↓	-16.0%
NSE	82,220	↓	-30.5%

Advances/Declines (%)

	Advances	Declines
BSE	30.3%	67.3%
NSE	25.0%	72.7%

Nifty Delivered Statistics

	Delivered Quantity	% Daily Quantity*
Most Delivered		
Jindal Steel	9,743	74.8
Ind Hotel	784,053	72.2
Mah Seamless	91,372	71.4
Chambal Fert	266,507	71.3
Least Delivered		
IFCI	15,974,573	16.1
Titan	45,070	15.3
Rel Capital	157,824	13.1
Century Tex	147,869	12.1

* to trade quantity.

Institutional Activity

26 April 2007	Cash (Rs mn)	F&O (Rs mn)
FII's		
Buy	30,644	91,854
Sell	27,048	86,253
Net	3,598	5,601
Mutual Funds		
Buy	10,401	-
Sell	10,224	-
Net	177	-

Key Statistics

	Close	Change
Rs/US\$	41.36	0.26
Rs/Euro	56.44	0.35
10 yr G-Sec (%)	8.10	0.05
Call rate (%)	8.00	-
Brent-spot (US\$/bbl)	67.55	-0.41
WTI-spot (US\$/bbl)	66.46	1.40
Aluminium (LME, US\$/t)	2,790	-7.00
Copper (LME, US\$/t)	7,740	-108.00
Zinc (LME, US\$/t)	3,688	-2.00
Steel (US\$/t)	568	0.00

Inside

□ Hindustan Construction: Full tax impacts profits

Hindustan Construction Co. (HCC) declared results lower than expectations in 4Q FY07. EBITDA came in line at Rs870 mn, while interest came in higher than expected. This is why we are reducing our FY08E and FY09E profit estimates by 4% and 2% respectively. Given the removal of Sec. 80 IA tax benefits for construction companies with retrospective effect, HCC reported a net loss in 4Q FY07 as it provided for prior period taxes through the P&L. However, adjusted profit (excluding forex gain of Rs100 mn, and prior period tax) was lower only by 28% YoY at Rs298 mn. The order book continues to be robust at Rs74 bn, at 3.0x FY07 sales. HCC has not unveiled additional details on real estate, and hence we retain our Rs33/share valuation for the same.

The stock is currently trading at an EV/EBITDA of 8.1x and PE of 13.4x FY09E estimates, excluding its real estate value. We continue to be positive on the company, given the steady revenue CAGR of 20% over the next two years in its construction business. Additionally, as plans on its real estate unfold, there will be further upside potential. We continue to maintain our Buy recommendation, with a target price of Rs118, valuing the core construction business at 9.5x EV/EBITDA FY09E estimates.

[\(Please click here for details on page 2\)](#)

Sector: Construction

Target Price	Rs118
Market cap	Rs25.2 bn/US\$566.7 mn
52-week range	Rs 184/83
Shares in issue (mn)	256.1
6-mon avg daily vol (no of shares)	2,798,716
6-mon avg daily vol (mn)	Rs275.5/US\$6.2
Bloomberg	HCC IN
Reuters	HCNS.BO
BSE Sensex	13909
Website	www.hccindia.com

Shareholding Pattern (%)

Promoters	47.0
FII's	14.5
MFs/FIs/Banks	11.7
Others	26.8

(As of 31 March 2007)

Price Performance (%)

	1M	3M	12M
Absolute	10.1	(31.3)	(42.2)
Relative*	3.7	(30.0)	(57.7)

* To the BSE Sensex

Relative Performance



(As of 27 April 2007)

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Full tax impacts profits

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Highlights

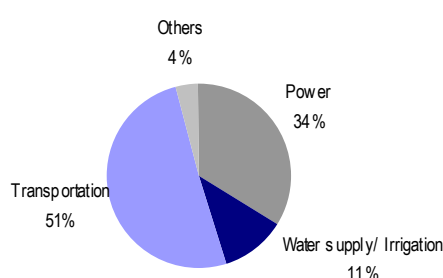
- **Strong order backlog with higher margin projects:** HCC has a strong order backlog of Rs74 bn, excluding a disputed order of Rs19.4 bn. This will fuel its 20% revenue CAGR over the next two years. Although there has been a slowdown in order inflow, the management expects this to pick up in the second half of the year post monsoons. The company currently is L-1 on projects of around Rs19.3 bn. An important positive is the higher proportion of hydro-power projects in its current order book. These have higher margins, and will result in margin improvement in FY09E (see Exhibit 2).
- **Higher interest costs:** During the quarter HCC's interest costs rose, as the company's debt increased by around Rs3 bn. Interest came in at Rs212 mn, which was higher by 149% YoY and 21% QoQ. Accounting for the higher interest cost, we have marginally reduced our estimates by 4% in FY08E and 2% in FY09E.

Exhibit 1: Financial summary

(Rs mn)

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
Net Sales	15,765	20,281	23,945	28,734	34,481
EBITDA	1,542	1,833	2,370	2,845	3,586
EBITDA (%)	9.8	9.0	9.9	9.9	10.4
Adjusted PAT	664	816	686	876	1,251
EPS (Rs)	2.6	3.2	2.7	3.4	4.9
EPS Growth (%)	-	22.8	(15.9)	27.7	42.9
ROCE (%)	16.6	12.2	6.3	8.5	10.7
RONW (%)	25.7	13.1	7.6	9.3	12.2
PE (x)	25.2	20.6	24.5	19.2	13.4
EV/EBITDA (x)	12.7	10.2	11.9	10.1	8.1

Source: Company, ASK Raymond James Note: Valuations as of 27 April 2007, excluding Rs33 / share of real estate.

Exhibit 2: Order book break-up

Source: Company data, ASK Raymond James.

- Full tax provided for:** As per the Union Budget of 2007-08, the Finance Minister has removed tax exemptions enjoyed by construction companies with a retrospective effect from 2001. This is the first quarter when HCC has provided for full tax, as against MAT earlier. This resulted in the 28% YoY decline in profits adjusted for the extraordinary forex gain and prior period tax. Reported profit showed a net loss, as the company accounted for the full tax of the first three quarters in FY07 and retrospective tax impact in 4Q FY07. Of the total prior period tax of Rs425 mn, Rs87.2 mn was for earlier quarters of FY07. The balance tax was for years prior to FY07, and was merely an accounting entry and not a cash outflow for HCC as the company had paid its taxes and created a reserve for the same.
- Real estate plans yet to be unveiled:** HCC has around 12,500 acres of land at Lavasa, outskirts of Pune, which the company is expecting to develop as a township. Substantial value is expected to be unlocked as the same is developed. We had valued it at Rs14/share based on land value (considering acquisition of around 10,000 acres is completed). Apart from this, they have 26 acres of land in Vikhroli, which we had valued at Rs19/share based on land value and plans to set up a Corporate Park. Given that there are no updates on the real estate front and plans are yet to be unveiled, we maintain our earlier valuation of Rs33/share.
- Reasonable upside:** Excluding Rs33/share for its real estate business, HCC is currently trading at an EV/EBITDA of 8.1x and PE of 13.4x FY09E. We continue to maintain our Buy recommendation, with a target price of Rs118 (including Rs33/share for real estate), valuing the core construction business at 9.5x EV/EBITDA FY09E estimates.

Exhibit 3: Quarterly results**(Rs mn)**

Y/E March	4Q FY07	4Q FY06	% chg	FY07	FY06	% chg
Income from operations	8,476	7,751	9.4	23,945	20,281	18.1
Expenditure	7,606	7,072	7.5	21,575	18,448	16.9
EBITDA	870	679	28.1	2,370	1,833	29.3
EBITDA margin (%)	10.3	8.8	-	9.9	9.0	-
Other income	25	8	213.4	39	4	915.8
Interest	212	85	149.3	620	414	49.7
Depreciation	244	147	66.0	797	524	51.9
Extra ordinary items	(325)	21	-	(178)	476	-
PBT	114	476	(76.1)	815	1,375	(40.7)
Tax	172	38	351.7	360	127	184.0
Reported PAT	(58)	438	(113.2)	455	1,248	(63.5)
Adjusted PAT	298	417	(28.4)	686	816	(15.9)

Source: Company data.

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