

June 4, 2008

Rating	BUY
Price	Rs114
Target Price	Rs178
Implied Upside	56.6%
Sensex	15,515

(Prices as on June 4, 2008)

Trading Data

Market Cap. (Rs bn)	29.1
Shares o/s (m)	256.3
Free Float	53.0%
3M Avg. Daily Vol ('000)	2,716.9
3M Avg. Daily Value (Rs m)	352.5

Major Shareholders

Promoters	47.0%
Foreign	11.9%
Domestic Inst.	17.7%
Public & Others	23.4%

Stock Performance

(%)	1M	6M	12M
Absolute	(16.6)	(45.8)	11.1
Relative	(4.7)	(25.2)	4.1

Price Performance (RIC: HCNS.BO, BB: HCC IN)



Source: Bloomberg

Hindustan Construction Company**Triggers remain strong**

- **Order book:** Hindustan Construction Company's (HCC) Rs105bn order book as on March 2008 includes the Rs19.8bn Sawalkote project, which is currently under dispute. Adjusting for this project, the order book would be Rs85.2bn, of which 50% contracts would have a wholesale price-based escalation, 30% would be star rate-linked and 10% linked to the metal index. The balance 10% would be fixed price contracts.
- **Bandra-Worli Sea Link:** HCC has reached an agreement with MSRDC to receive cost variations to the extent of Rs1.57bn for its BWSL project. Consequently, this will result in no further losses being booked on the project. However, this amount as on December 2003 the company would be claiming further escalations on the same. Totally the outstanding claim on BWSL is Rs4bn.
- **Lavasa:** HCC Real Estate (HREL) has increased its stake in Lavasa from 63% to 65%. So far Rs7bn has been invested in Lavasa, of which Rs2.5bn was through equity and the balance through debt. The company is still working with the option of a private equity stake in Lavasa; however, the purpose of the deal is to set a valuation benchmark for the project and is not so much as to meet its funding requirements.
- **Outlook & valuation:** We have a price target of Rs178. HCC's core business has been valued at 17x FY09 EPS, Lavasa has been valued at Rs44/share, the Vikhroli IT Park has been valued at Rs16.7/share, and the two SRS projects and annuity BOT projects at Rs13.6/share. We maintain BUY rating on the company.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	23,576	30,828	39,171	47,790
Growth (%)	18.7	30.8	27.1	22.0
EBITDA (Rs m)	2,153	3,666	4,896	5,974
PAT (Rs m)	793	1,088	1,754	2,365
EPS (Rs)	3.1	4.0	6.4	8.6
Growth (%)	(6.6)	28.2	61.2	34.9
Net DPS (Rs)	0.8	0.8	0.8	0.8

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	9.1	11.9	12.5	12.5
RoE (%)	8.8	11.5	16.4	18.9
RoCE (%)	4.0	6.9	8.7	9.7
EV / sales (x)	1.8	1.4	1.2	1.0
EV / EBITDA (x)	19.8	12.1	9.6	7.9
PE (x)	36.8	28.7	17.8	13.2
P / BV (x)	3.22	3.17	2.55	2.15
Net dividend yield (%)	0.7	0.7	0.7	0.7

Source: Company Data; PL Research

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Management representatives:

Mr. Praveen Sood, CFO

Q: What is the current order book and what is the exposure to fixed price contracts?

A: The order book as on March 2008 is Rs105bn, which includes the Rs19.8bn Sawalkote project, which is currently under dispute. If you adjust for Sawalkote, the order book would be at Rs85.2bn, of which 50% of the contracts would have a wholesale price-based escalation, 30% would be star rate-linked and 10% linked to the metal index. The balance 10% would be a fixed price contract.

While we are protected by the various escalation clauses, we could be impacted by increase in commodity prices to the extent of the differential in the rise in the index and the actual increase in commodity prices, which is why we also keep at any point in time some inventory for a quarter. Also, given our past experience with projects that are intensive pipes, etc. we try and take on star rate contracts. So largely, our irrigation projects are star rate contracts.

Q: What is the current order book mix across verticals and also going forward how is this likely to move?

A: In the current order book, 47% comprises of power projects, 32% transportation and the balance water projects. Going forward, order booking would largely be in similar verticals, however, the type of order would probably be different. For instance, in the roads space, we would be bidding for projects on BOT basis; in power, we would bid for projects on EPC basis.

Q: What is claim amount on the Bandra-Worli Sea Link?

A: HCC has reached an agreement with MSRDC to receive cost variations to the extent of Rs1.57bn for its BWSL project. Consequently, this will result in no further losses being booked on the project. However, this amount is as on December 2003 and we will also be claiming the escalation amount on this. Totally we have an outstanding claims amount of Rs4bn and will be going for arbitration on the same.

Q: When will the Vikhroli IT park be ready for leasing and when would revenue start flowing? What is the rent expected on the IT Park?

A: The shell building is expected to be ready by December 2008, after which we will be able to lease out space for fit outs. The current going rate in the region is between Rs100-120/sq.ft., and we expect something in that range.

Q: What is HREL's current stake in Lavasa?

A: After the recent rights issue, HREL's stake in Lavasa has increased from 63% to 65%.

Q: Currently how much has been invested in Lavasa and what is the total funding requirement at Lavasa?

A: So far we have invested Rs7bn in Lavasa, of which Rs2.5bn is the equity invested and the balance is through debt. We have sanctioned debt of Rs7bn, of which about Rs5bn has been drawn. Apart from the sanctioned debt, Lavasa has receivables worth Rs4bn on account of sale of property, of which Rs700m has been realised and the balance will be realised over time. The peak funding requirement for Lavasa is Rs12bn.



Q: Has the private equity investment in Lavasa been called-off? How important is this funding for developing the project?

A: No; the deal has not been called-off and we are still working on the same. The purpose of the deal is to set a valuation benchmark for the project and not so much as to meet the funding requirement. We have sanctioned debt of Rs7bn, of which about Rs5bn has been drawn. Apart from the sanctioned debt, Lavasa has receivable worth Rs4bn on account of sale of property, of which Rs700m has been realised and the balance will be realised over time. The peak funding requirement for Lavasa is Rs12bn.



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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