

**BUY**

<b>Price</b>	<b>Rs96</b>
<b>Target Price</b>	<b>Rs140</b>
<b>Investment Period</b>	<b>12 months</b>

**Stock Info**

Sector	Construction
Market Cap (Rs cr)	2,456
Beta	1.3
52 WK High / Low	279/ 68
Avg Daily Volume	779582
Face Value (Rs)	1
BSE Sensex	14,275
Nifty	4,312
BSE Code	500186
NSE Code	HCC
Reuters Code	HCNS.BO
Bloomberg Code	HCC IN

**Shareholding Pattern (%)**

Promoters	47.0
MF/Banks/Indian FIs	28.1
FII/ NRIs/ OCBs	12.6
Indian Public	12.3

Abs.	3m	1yr	3yr
Sensex (%)	(16.6)	(9.1)	90.2
HCC (%)	(23.5)	(31.5)	58.8

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**Performance Highlights**

- **Net Sales up by mere 19%:** Hindustan Construction Company (HCC), a leading infrastructure player, delivered a disappointing performance for 1QFY2009 registering a yoy Top-line growth of 19% to Rs866cr (Rs729cr), which was below our estimate of Rs913cr.
- **Better-than-expected Operating Margins:** Higher share of high-Margin Hydro Power projects and cost escalations helped the company to maintain OPMs at 10.6% (10.8%) levels during the quarter as against our estimate of 9.7%. During the quarter, incremental costs were to the tune of Rs25cr and the company was able to pass on Rs20cr, which was better than our expectation.
- **Strong Order Book:** HCC has a strong and well-diversified order book of Rs8,256cr (excluding the Rs1,940cr project, which is pending a High Court decision), which gives growth visibility. During the quarter, HCC received Rs853cr worth of orders in the Transportation Segment. The Hydro-Power and Irrigation Segments constitute 58% and Transportation 37% of the company's total order book. Further, HCC is at L1 for orders worth Rs4,924cr, which when confirmed will further boost its order book.
- **Net Profit exceeds expectations on account of Land Sale:** HCC posted Net Profit of Rs31cr (Rs35cr) as against our estimate of Rs15cr, which was primarily due to the land sale. For the quarter, the company recorded sale of land of Rs61.9cr and booked losses to the tune of Rs50.6cr on the FCCB front. Excluding the Land sale profits, FCCB losses and Other Income gains the company would have reported a Bottom-line of Rs18.8cr, which was above our expectations.

**Key Financials**

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	2010E
<b>Net Sales</b>	<b>2,357.6</b>	<b>3,082.8</b>	<b>3,853.2</b>	<b>4,891.5</b>
% chg	18.7	30.8	25.0	26.9
<b>Net Profit</b>	<b>54.9</b>	<b>70.8</b>	<b>78.2</b>	<b>155.3</b>
% chg	(28.9)	29.0	10.4	98.7
<b>EPS (Rs)</b>	<b>2.1</b>	<b>2.8</b>	<b>3.0</b>	<b>6.1</b>
EBITDA Margin (%)	9.1	11.9	10.4	11.6
P/E (x)	44.8	34.8	31.5	15.8
RoE (%)	6.1	7.2	6.8	12.2
RoCE (%)	6.5	9.1	7.8	11.2
P/BV (x)	2.7	2.5	2.1	1.9
EV/Sales (x)	1.4	1.5	1.0	0.8
EV/EBITDA (x)	15.0	12.4	9.7	6.9

Source: Company, Angel Research

**Key Developments**

**Restructure of business:** HCC has set up three distinct business units at the corporate level - HCC would be involved in the Construction business; the 100% subsidiary, HCC Real Estate would take care of its Real Estate interests while HCC Infrastructure will be the Infrastructure Developer for the company. Each of the verticals will leverage their skill sets supported by shared services to develop their respective businesses. Through such restructuring, HCC plans to enter the EPC business (HCC Infrastructure), which has immense potential. Nonetheless, this restructuring is still at a nascent stage and we await more developments and clarity. Hence, we have not factored in the same in our estimates.

**Outlook and Valuation**

There is general consensus that inadequate infrastructure has been a drag on the Indian economy and has hampered growth by 1-2%. Hence, taking care of the same, the Eleventh Five-Year Plan has allocated investments for infrastructure to the tune of US \$494bn. We believe such initiatives by the government will ensure growth for the Indian infrastructure companies in the years to come. In the Road segment, NHAI has estimated Rs2.45lakh crore to be invested for the balance work under NHDP schemes upto 2015. "India Infrastructure Finance Company (IIFCL)" set up for financing infrastructure projects of Indian companies has received the RBI nod to lend US \$5bn from the Forex reserves, which would provide a boost to the Sector as a whole. Exclusive India Infrastructure Funds set up by the Blackstone Group and Citigroup with IDFC received US \$519mn out of the total US \$5bn from IDFC. Many more Infra funds with an investment outlay of more than US \$10bn are also in the process of being set up by global giants including GE Capital, which are required for funding the infrastructure needs of the economy. We expect HCC to be a key beneficiary of this trend.

As per the SOTP methodology, we have arrived at a Target Price of Rs140 for HCC. We have assigned a multiple of 12x FY2010E EPS of Rs6.1 and valued its Real Estate business at Rs68. **We maintain a Buy on the stock, with an upside of 46%.**

**Exhibit 2: 1QFY2009 Performance**

Y/E March (Rs cr)	1QFY2009	1QFY2008	% chg	FY2008	FY2007	% chg
<b>Net Sales</b>	<b>865.9</b>	<b>729.0</b>	<b>18.8</b>	<b>3,082.8</b>	<b>2,357.6</b>	<b>30.8</b>
Total Expenditure	774.4	650.6	19.0	2,716.2	2,142.4	26.8
<b>Operating Profit</b>	<b>91.5</b>	<b>78.5</b>	<b>16.6</b>	<b>366.6</b>	<b>215.3</b>	<b>70.3</b>
OPM (%)	10.6	10.8	-	11.9	9.1	-
Interest	39.1	32.2	21.3	152.4	62.0	145.9
Depreciation	25.3	22.8	11.0	96.2	79.7	20.8
Non Operating Income	12.8	32.1	(60.0)	38.0	44.3	(14.2)
Non Recurring items	0.0	0.0		0.0	0.0	
<b>Profit Before Tax</b>	<b>40.0</b>	<b>55.6</b>	<b>(28.0)</b>	<b>156.0</b>	<b>117.9</b>	<b>32.3</b>
Tax	8.4	20.6	(59.4)	47.2	39.0	21.1
<b>Reported Profit After Tax</b>	<b>31.6</b>	<b>35.0</b>	<b>(9.6)</b>	<b>108.8</b>	<b>78.9</b>	<b>37.9</b>
PAT (%)	3.7	4.8	-	3.5	3.3	-
<b>Reported EPS (Rs)</b>	<b>1.2</b>	<b>1.4</b>	<b>(9.6)</b>	<b>4.2</b>	<b>3.1</b>	<b>37.9</b>

Source: Company, Angel Research



# Angel Broking Limited

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**Ratings (Returns) :** Buy (Upside > 15%)  
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)  
Sell (Downside > 15%)

Neutral (5 to -5%)