

HINDUSTAN CONSTRUCTION

NEUTRAL

CMP: 41

BSE Code	500185
NSE Code	HCC

Key Data

Sensex	8674
52 week H/L (Rs)	230.5/30.1
Market Cap (Rs Cr)	1101
Avg. daily vol. (6m)	1153401
Face Value (Rs)	1

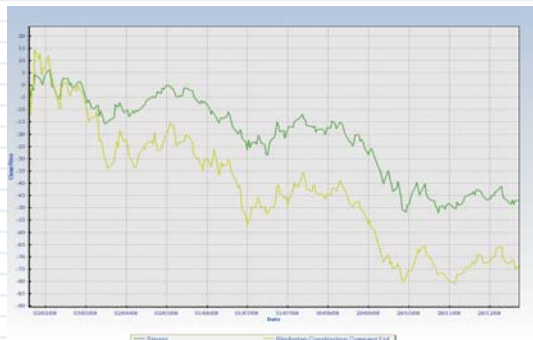
Source: Capitaline

Shareholding Pattern (%)

Promoters	47.17
Institution	20.44
Foreign holding	6.67
Non-promoter corp. holding	9.42
Public & Others	16.30

Source: Capitaline

One-Year Performance (Rel. to Sensex)



Source: Capitaline

Result Highlights

HCC registered a 9.3% (yoy) growth in the top line and a de-growth of 7.3% (yoy) in the bottom line to Rs.819.4 Cr and Rs.23.2 Cr respectively.

Operating profit grew by 9.6% to Rs.106 Cr and the operating margins were slightly higher (yoy) at 12.94%.

The damage due to surge in interest cost was largely offset by write back of tax provisions of Rs.9 Cr.

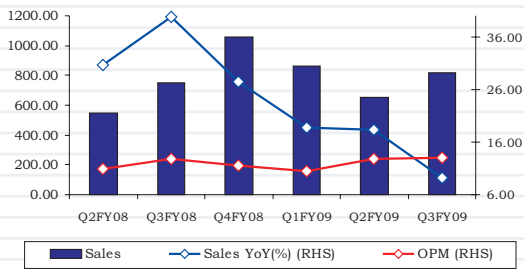
Company's order book grew at 35% (yoy) to Rs.12177 Cr. In Q3FY09, orders worth Rs 2224.4 Cr were added to the backlog. Moreover, the company has L1 status on projects worth Rs 5000 Cr. The current order book is 3.6 times TTM sales of Rs 3389 Cr.

The management expects the order book to be at Rs 17000 Cr at the end of FY09 and a 20% top line growth for the Q4FY09.

Financials

	Q3 FY09	Q3 FY08	YoY%	Q2 FY09	QoQ%
Net Sales	819.43	750.01	9.3	649.16	26.2
Total Expenditure	713.40	653.28	9.2	565.49	26.2
Core EBITDA	106.03	96.73	9.6	83.67	26.7
EBITDA Margins (%)	12.94	12.90	4.0	12.89	5.0
			(bps)		(bps)
Other Income	2.22	5.49	-59.6	52.86	-95.8
Depreciation	29.91	23.34	28.1	29.63	0.9
EBIT	78.34	78.88	-0.7	106.90	-26.7
Interest	57.28	40.79	40.4	49.20	16.4
Profit Before Tax	21.06	38.09	-44.7	57.70	-63.5
Tax	8.96	-13.04		-11.73	
Adjusted Net Profit	30.02	25.05	19.8	45.97	-34.7
Extra Ordinary Inc/Exp	-6.81	0.00		-26.04	
Reported Net Profit	23.21	25.05	-7.3	19.93	16.5
NPM (%)	3.66	3.34		7.08	
No of shares	25.63	25.63		25.63	
EPS (Ann.)	3.62	3.91		3.11	

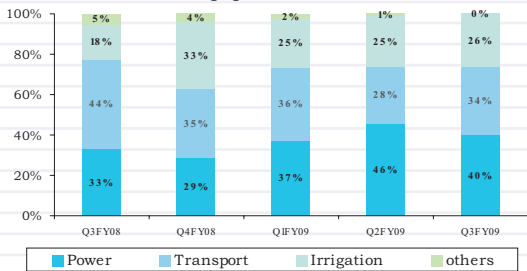
Operating Performance



HCC reported a 9.3% and -7.3% growth (yoy) in top line and bottom line respectively. Interest cost for the quarter was Rs.57.3 Cr (40.8% yoy), much higher than estimated due to higher total debt at Rs.2500 Cr (March 08 debt Rs.1844 Cr) and high interest rates environment. This takes the debt to equity ratio of the company to 2.7. We believe the high leverage will lead to a drag on the bottom line in the coming quarters.

Operating profit for the quarter was 9.6% higher at Rs.106 Cr with the operating margins improving marginally to 12.94%. During the quarter, Power segment contributed most (40%) to the revenue followed by transportation segment.

Changing Revenue Mix



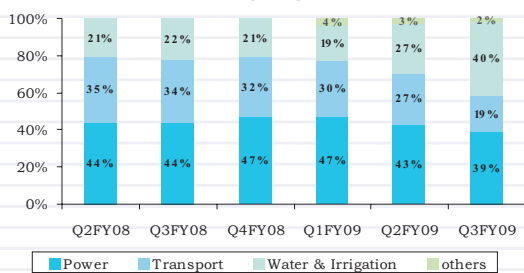
HCC added orders worth Rs.2224.4 Cr in the Q3FY09 taking the total unexecuted orders to Rs.12177 Cr. The company is L1 for Rs.5000 Cr projects and expects order backlog to reach Rs.17000 Cr by March 09.

Progress on Real Estate front on track

247 Park

HCC has pre-leased an additional 3 lakh square feet of space at its 247 Park in the Q3FY09 taking the total leased area to about 6 lakh square feet out of the total leasable space of 12 lakh square feet. Management has indicated witnessing renegotiations of lease rentals from more than Rs.90 psft to Rs.75-80 psft. The construction is expected to be completed by March 2009.

Order Backlog Composition



SRS Projects

There was no material progress at the SRS projects this quarter. At present the company is engaged in 2 slum rehabilitation schemes with the total development area of 5.8 msf. For the SRS project in Vikhroli East, HCC has obtained more than 70% dwellers' consent and has added 30 acres land in the project for creating a mega development.

Lavasa

HCC has pre sold 1400 residential units in total at Lavasa. In Q3FY09, the company leased 22500 sqft of retail space and 30 club memberships. The value of pre sales remained same as last quarter at Rs.700 Cr and the management has raised rates by Rs.100/ sqft from 1st January 09. Currently, the villas are being sold at Rs.3550/sqft and apartments at Rs.3050/sqft.

During the quarter, Allahabad Bank invested Rs.50 Cr in Lavasa. The total investment by Allahabad bank, Axis bank and Bank of India now stand at Rs.450 Cr valuing Lavasa at Rs.10,000Cr.

HCC plans to raise as much as Rs.1500 Cr through an IPO to fund Lavasa by 2010.

Recommendations

At the current price, HCC trades 10.5 times its TTM earnings of Rs.3.9. The company has strong order book position (almost 3.6 xTTM sales). While we see strong revenue visibility owing to the robust order book, our concerns pertain to the rising debt. We believe that going forward the bottom line will remain under pressure due to high interest costs. We give a 'Neutral' rating to the stock.

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RATING INTERPRETATION

Outperformer Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Neutral Expected to remain in a narrow range

Underperform Expected to depreciate more than 10% over a 12-month period

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