

May 14, 2009

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Trading Data

Current Market Price	Rs61
Market Cap. (Rs bn)	15.7
Shares o/s (m)	256.3
Free Float	52.8%
3M Avg. Daily Vol ('000)	1,518.1
3M Avg. Daily Value (Rs m)	79.3

(Prices as on May 14, 2009)

Major Shareholders

Promoters	47.2%
Foreign	8.7%
Domestic Inst.	18.6%
Public & Others	25.5%

Stock Performance

(%)	1M	6M	12M
Absolute	17.9	22.6	(53.5)
Relative	9.7	(3.9)	(23.5)

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



Source: Bloomberg

Hindustan Construction Company**Scope for improvement**

As part of our PL Mega Corporate Month event, we recently hosted investor meetings with Hindustan Construction Company (HCC). Following were the key take aways from the same:

- Order book to give three year visibility:** HCC has an order back log of Rs164bn which is expected to drive a 25% YoY revenue growth for the coming three years. The company expects the work on hydro power projects to pick up, especially in the northern regions. HCC also expects new orders from road sectors which will add to its revenue growth. The company has received a new orders worth Rs90bn in FY2009 (comprising 11 projects) which translates into a 61% YoY growth and has been the highest intake for the company. Out of the current order book, 91% of the projects are from the Government sector. However, the present order book includes an order of Rs19.8bn from Sawalkote(which is into arbitration). The company is L1 for projects worth Rs10bn and has submitted bids for projects worth Rs100bn.
- Margins to sustain:** HCC's current order book comprises of Power (51%), Water (31%) and balance in Transportation. The company expects the EBITDA margins to remain in the range of 12.5%-13%. The company expects to earn stable margins on account of greater exposure to hydro power projects. However, higher interest cost would not allow the net margins to grow faster. HCC expects the working capital requirement to remain at present levels (around 45-90 days) on account of new projects and slow receivables.
- Vikhroli 24X7 ready for fit outs:** Vikhroli 24X7's 1.1m leasable area is ready for fit outs. The average lease rentals stands at Rs70 sq ft. HCC is looking out for selected client's for the remaining 50% area. The company's office will occupy 0.18m sq ft within the 24X7. The company is expecting lease rentals worth Rs 800m from the developments.

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Y/e March	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	30,828	33,138	40,276	50,041
Growth (%)	30.0	7.5	21.5	24.2
EBITDA (Rs m)	3,666	4,314	4,971	6,278
PAT (Rs m)	1,088	1,253	820	1,106
EPS (Rs)	4.2	4.9	3.2	4.3
Growth (%)	195.6	15.2	(34.6)	34.8
EBITDA margin (%)	11.9	13.0	12.3	12.5
RoE (%)	11.4	12.5	7.8	10.1
RoCE (%)	13.3	13.4	12.9	13.8
EV / sales (x)	1.0	1.1	1.0	1.0
EV / EBITDA (x)	8.6	8.7	8.4	7.7
PE (x)	14.4	12.5	19.1	14.2

Source: Company Data; PL Research



- **Lavasa starts booking sales, would require funds for future growth:** Lavasa has booked revenues of Rs2.1bn out of the total revenue recognized to the tune of Rs8bn. Lavasa has posted a PAT of Rs1.2bn. The soft launch of the entire Phase 1 is expected in 2009, while the hard launch with full-fledged activities will be done in 2010. The current net worth of Lavasa stands at Rs4bn, debt at Rs5bn and convertible debentures at Rs4.2bn. The key trigger to conversion of bonds would be the IPO of Lavasa, within the time frame of five years. The investment in Lavasa till date is at Rs13bn. The company expects Lavasa to earn revenues to the tune of Rs32bn till FY12, with a net margin of 40%. Lavasa would require funds to the tune of Rs7bn for further development of current and future phases in the coming months. The company is planning to raise these funds either through debt or through convertible debentures.
- **Fund commitment towards subsidiaries would reduce:** As the commitment towards Bandra Worli Sea-Link (BWSL) and Lavasa are almost done and infrastructure business (comprising BOTs) has gained an independent status as an Special Purpose Vehical (SPV), the company expects lower fund commitment towards subsidiaries and concentration on the core business. However, the company is planning to raise funds if the incremental order intake is huge.
- **Financials and view:** The debt position as on FY09 stands at Rs20bn and cash and cash equivalentents at Rs1.5bn.

The execution of projects is likely to be affected on account of a general slowdown. However, the company believes that the current order book will accelerate the revenues by 25% YoY for next three years. We also expect the power projects to start contributing substantially from the current financial year.

We expect HCC to report close to 23% revenue CAGR from FY09-11E. EBITDA margins are expected to remain slightly above 12% on account of higher share of power projects and reduced share of road projects. PAT will continue to remain subdued on account of an increase in the debt levels (and thus the interest cost). On the back of a healthy order book and subsidiaries getting independent funding, we expect business fundamentals of HCC to turn robust.



Financials

Income Statement

	(Rs m)			
Y/e March	FY08	FY09	FY10E	FY11E
Net Revenue	30,828	33,138	40,276	50,041
Gross Profit	4,802	5,349	6,117	7,543
SG&A Expenses	1,136	1,034	1,146	1,265
EBITDA	3,666	4,314	4,971	6,278
Net Interest	1,524	2,105	2,517	2,948
Depr. & Amortization	962	1,152	1,342	1,600
Profit before Tax	1,560	1,645	1,206	1,650
Total Tax	472	392	386	545
Net Minority Interest	-	-	-	-
Profit after Tax	1,088	1,253	820	1,106
Extraordinary Items	-	-	-	-
PAT after Ex. Items	1,088	1,253	820	1,106
Avg. Shares O/S (mn)	256.3	256.3	256.3	256.3
EPS (Rs.)	4.2	4.9	3.2	4.3

Cash Flow

	(Rs m)			
Y/e March	FY08	FY09	FY10E	FY11E
C/F from Operations	(264)	1,766	(3,492)	(1,472)
C/F from Investing	3,754	5,834	3,172	3,447
C/F from Financing	4,578	2,925	9,103	4,232
Inc. / Dec. in Cash	560	(1,143)	2,438	(686)
Opening Cash	2,084	2,644	1,500	3,939
Closing Cash	2,644	1,500	3,939	3,252
FCFF	4,038.4	560.5	(1,270.2)	(1,942.7)
FCFE	7,049.4	5,279.4	5,382.9	4,246.7

Key Financial Metrics

Y/e March	FY08	FY09	FY10E	FY11E
Growth				
Revenue (%)	30.8%	7.5%	21.5%	24.2%
EBITDA (%)	70.3%	17.7%	15.2%	26.3%
EPS (%)	195.9	15.2	-34.6	34.8
Profitability				
EBITDA Margin (%)	11.9%	13.0%	12.3%	12.5%
PAT Margin (%)	3.5%	3.8%	2.0%	2.2%
RoCE (%)	13.3%	13.4%	12.9%	13.8%
RoE (%)	11.4%	12.5%	7.8%	10.1%
Balance Sheet				
Net Debt : Equity	1.8	2.3	2.7	3.3
Net Wrkng Cap. (days)	181	185	181	181
Valuation				
PER (x)	14.4	12.5	19.1	14.2
P / B (x)	1.6	1.6	1.4	1.4
EV / Sales (x)	1.0	1.1	1.0	1.0
P / FCFE (x)	7.7	6.5	7.3	5.8
Earnings Quality				
Eff. Tax Rate	30.2%	23.8%	32.0%	33.0%
Other Inc / PBT	24.8%	35.8%	7.8%	4.2%
Eff. Depr. Rate (%)	6.1%	7.5%	7.5%	7.7%
FCFE / PAT	647.7%	421.2%	656.3%	384.1%

Balance Sheet

	(Rs m)			
Y/e March	FY08	FY09	FY10E	FY11E
Shareholders Funds	10,041	10,048	11,014	10,849
Long-term Liabilities	18,440	23,159	29,812	36,001
Other Liabilities	1,133	1,423	1,753	1,753
Total Liabilities	29,613	34,630	42,579	48,603
Net Fixed Assets	9,531	10,158	10,816	12,216
Investments	2,955	6,973	8,145	8,591
Net Current Assets	16,461	17,100	22,755	26,932
<i>Cash & Equivalents</i>	<i>2,644</i>	<i>1,500</i>	<i>3,939</i>	<i>3,252</i>
<i>Receivables</i>	<i>45</i>	<i>86</i>	<i>125</i>	<i>160</i>
<i>Current Liabilities</i>	<i>10,174</i>	<i>13,789</i>	<i>19,305</i>	<i>21,194</i>
Other Assets	675	400	863	863
Total Assets	29,613	34,630	42,579	48,603

Quarterly Financials

	(Rs m)			
Y/e March	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Net Revenue	8,659	6,489	8,194	9,797
EBITDA	911	834	1,060	1,507
% of revenue	10.5	12.9	12.9	15.4
Net Interest	391	492	2,105	650
Depr. & Amortization	253	296	299	304
Profit before Tax	392	46	142	795
Total Tax	84	117	(90)	281
Net Minority Interest	-	-	-	-
Profit after Tax	308	199	232	514
Ex. Items	-	-	-	-
PAT after Ex. Items	308	199	232	514

Key Operating Metrics (Revenue Mix %)

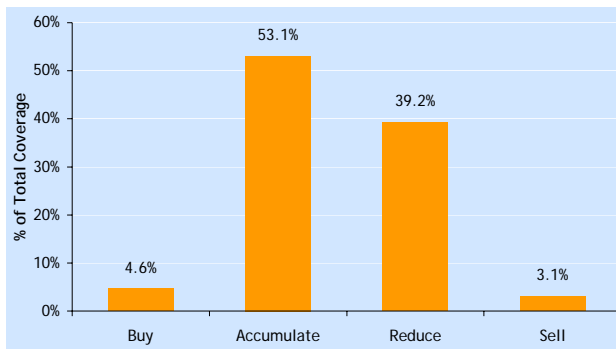
Y/e March	FY08	FY09	FY10E	FY11E
Power	30.0	38.0	40.0	40.0
Water Supply	20.0	27.0	25.0	25.0
Roads	50.0	34.0	30.0	30.0
Other	5.0	1.0	5.0	5.0

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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