

Hindustan Construction Company

 BSE code: 500185
 NSE code: HCC
 Website: www.hccindia.com

CMP: Rs 209*
Target: Rs 333
BUY

*As on 4 December 2007

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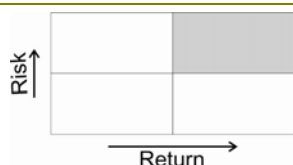
Company data

Particulars	
Market cap (Rs mn / US\$ mn)	51.5/1.3
Outstanding equity shares (mn)	256.3
52-week high/low (Rs)	226/83
2-month average daily volume	945,344

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	23,576.2	29,681.0	38,479.0
Growth (%)	18.7	25.9	29.6
Adj net profit (Rs mn)	615.8	774.4	1,375.0
Growth (%)	(20.2)	25.8	77.6
FDEPS (Rs)	2.4	3.0	5.0
Growth (%)	(20.2)	25.8	66.1
P/E (x)	83.7	66.6	40.1
ROE (%)	6.9	8.1	10.5

Risk-return profile



Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	47.4	47.5
FIs	14.1	15.4
Banks & FIs	17.5	13.5
Public	21.0	23.6

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
HCC	209	3.2	54.8	103.8
Sensex	19,530	(2.2)	26.3	34.7

On the ascent

Core business back in action; township of Lavasa to take HCC to new heights

Investment rationale

- ❖ Core business showing strong signs of improvement in order flow with contract wins totalling Rs 19.2bn over the last eight months. Current order book stands at Rs 76.6bn, which is 3.2x FY07 sales.
- ❖ Large investments planned in India's road, power and irrigation sectors coupled with HCC's vast project expertise to fuel a 30% CAGR in orders and 28.5% CAGR in sales for the company over FY07-FY10.
- ❖ EBITDA margin expected to improve from 9.1% FY07 to 12.2% in FY10 led by a reduction in Bandra-Worli Sea Link project losses, improving mix towards power and irrigation projects, and volume benefits from an improving order book and stronger execution.
- ❖ Flagship realty project in Maharashtra – the 12,500-acre township of Lavasa, would play a key role in taking HCC to new heights. Phase I has opened to a good response with 400 residential units already sold. So far, Rs 6.5bn has been expensed, with potential revenues of over Rs 100bn envisaged for the next 15–17 years.
- ❖ Owns a land bank of 1,536 acres in Maharashtra with a developable area of 36.4mn sq ft. Development of an IT Park and two slum rehabilitation projects across 5mn sq ft currently underway, which is factored into our valuations.

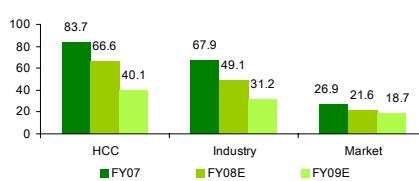
Key concerns

- ❖ Success of Lavasa will play a key role in re-rating of the stock; the failure of this project would have a substantial impact on estimates.

Valuation

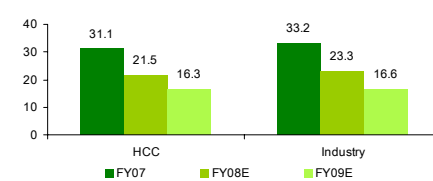
- ❖ SOTP approach yields a price target of Rs 333 for HCC as follows – Core business valued at Rs 105, Lavasa at Rs 198, IT Park and slum rehabilitation projects at Rs 26, and the BOT road project at Rs 4 (all based on DCF). Buy.

P/E multiple (x)



Source: Religare Research

EV/EBITDA multiple (x)



Source: Religare Research

Company profile

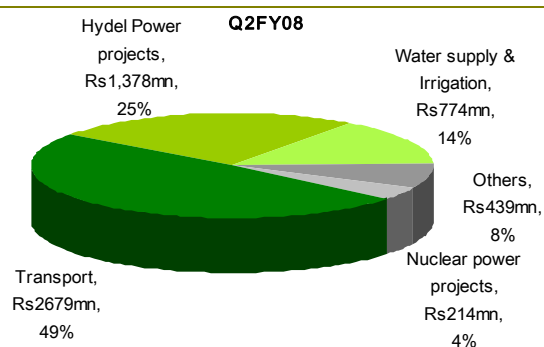
Over eight decades of experience in engineering and construction

Hindustan Construction Company (HCC) is one of India's leading construction players with a presence across diverse segments including transportation, hydro & nuclear power, irrigation & water supply, marine projects, utilities and urban infrastructure. Incorporated in 1926 by Seth Walchand Hirachand, HCC has over eight decades of experience in the engineering and construction space.

Leveraging on its existing strengths, the company ventured into the real estate business through its 100% subsidiary, HCC Real Estate. As part of this venture, it plans to develop 186mn sq ft of land across 14,000 acres in Maharashtra. The 12,500-acre Lavasa Township near Pune in Maharashtra is HCC's flagship realty project to be developed in phases over a period of 12–15 years.

HCC's core order book, largely comprising transportation, power and water supply projects, has grown at a CAGR of 23% over FY04-FY07 and currently stands at Rs 76.6bn (excluding the Rs 19.4bn Sawalkote power project). This is 3.2x FY07 sales and comprises 6 projects in the hydel power space, 4 in nuclear power, 20 in transportation and 4 in water supply & irrigation, amongst others.

Sales mix



Source: Company

Landmark projects undertaken by HCC

Segments	Project	Contract value (Rs bn)	Comments
Dams	Idukki Dam, Kerala	3.4	India's only double curvature arch dam
	Salal Dam, Himachal Pradesh	4.3	India's first dam to be built on a rock pedestal
Hydel projects	Chamera hydroelectric project, HP	2.1	Austrian tunnelling method used for the first time
	Tala hydroelectric project, Bhutan	7.3	Among the largest hydroelectric projects in South Asia
	Nathpa Jhakri hydroelectric project, HP	5.5	Largest hydroelectric project built in India
	Koyna hydel project, Maharashtra	6.1	Largest underground hydel power project in the state
Barrage	Farakka barrage project, West Bengal	5.9	Longest barrage in Asia
Roads	Mumbai Pune expressway, Maharashtra	3.5	India's first expressway to have a concrete pavement
	West Bengal road	3.5	Part of Golden Quadrilateral project
Metros	Metro Railway project, West Bengal	6.4	India's first Underground Rapid Transit System
	Delhi Metro Rail Project	9.4	Completed 8 months ahead of schedule in December 2004

Source: Company, Religare Research

Investment rationale

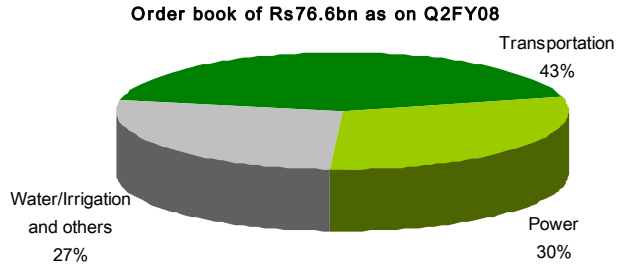
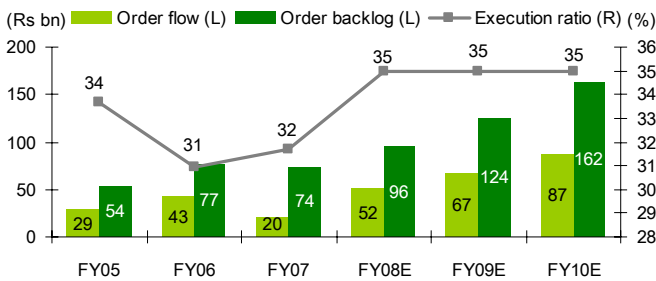
Order book regaining momentum

At the end of September 2007, HCC's order book stood at Rs 76.6bn, which is 3.2x FY07 sales. This excludes the Rs 19.4bn 1,200MW Sawalkote power project bagged by the company in H1FY07 against which court litigation is underway. HCC is also awaiting decisions for tenders (directly or in joint venture) for 7-9 projects amounting to Rs 40bn-45bn.

About 44% of the orders currently in hand are from the transportation space with 30% for power projects and the remainder for water supply and irrigation works. Going ahead, we expect transportation projects to continue to dominate the order mix at 48%, with power estimated to contribute 35%.

Order book position over FY05-FY10E

Current order book composition



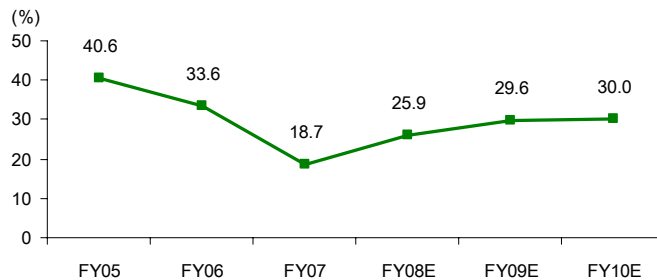
Source: Company, Religare Research

Order inflows expected to clock a 33% CAGR over FY07-FY09

We anticipate robust growth momentum in areas like transportation, hydel power and irrigation considering the huge investments earmarked for these segments over the 11th and 12th Five Year Plans. In view of the large business opportunity (discussed in detail below) and HCC's vast experience in building complex and technologically advanced structures, we project a 33% CAGR in the company's order book over FY07-FY09 as against a 17% CAGR over FY05-FY07. We also expect the company's average project execution rate to improve to 34% as against 32% over FY05-FY07. We thus forecast a net sales CAGR of 29% over FY07-FY09.

We expect a net sales CAGR of 29% over FY07-FY09

Sales growth forecast



Source: Company, Religare Research

Contract wins of Rs 19.2bn over the last 7-8 months

Slowdown in order booking during FY07...

HCC witnessed a sluggish phase of order booking during FY07, with a 5% decline in its order backlog. This is primarily attributed to the delay in projects awarded in the road and hydel power segments, where HCC has a mix of 45–50% and 30–35% respectively. In addition, financial constraints such as a high debt position due to the long-delayed Bandra-Worli Sea Link project in Mumbai and heavy investments towards its real estate venture may have limited the company's ability to take on more contracts.

...but growth returning to form with contracts for Rs 19bn won in last 7-8 months

Considering HCC's track record of contract wins, the sluggishness in order booking is unlikely to persist for long. Already, there are signs of improvement with the company winning orders for a total value of Rs 19.2bn over the last seven to eight months. We are also seeing an improvement in the ticket size of orders, which will serve to boost margins. Further, with the Bandra-Worli Sea Link project reaching a critical stage and the company's real estate venture set to transit to self-financing mode by FY09, we expect a substantial increase in funds directed towards execution of core projects.

In our view, the company will experience a strong growth momentum in its order book, driven by a pick-up in road and power project awards over the next few years. This will be necessary in order to meet the infrastructure targets of the government's 11th and 12th Five Year Plans. In an important step, HCC's management has shed its cautious approach towards BOT projects (which is now the preferred model for most road contracts) and is now willing to take on such works. Going ahead, a majority of its transportation projects are expected to be on BOT basis.

Recent orders received

Date	Details	Value (Rs bn)
Oct-07	From DMRC for construction of two stations and a tunnel between New Delhi and Talkatora Garden	7.7 (HCC's share Rs 2.6bn)
Oct-07	From BMC for water tunnel construction, Mumbai	4.2
Jul-07	BMC water project, Mumbai	3.1
Jun-07	Irrigation project, Andhra Pradesh (AP)	3.3
Jun-07	Civil work for Tisco's proposed plant in Orissa	1.7
May-07	Tunnel project, AP	7.4 (HCC's share Rs 4.4bn)

Source: Company

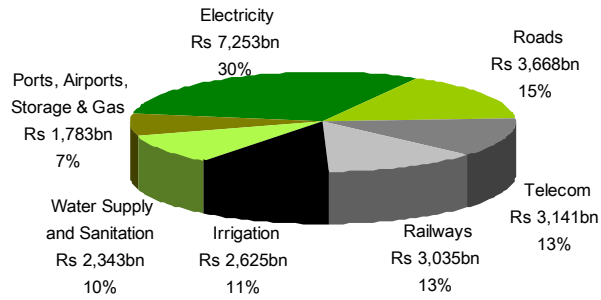
Based on the investments planned in various infrastructure segments under the five year plans, we have detailed the overall business opportunity available to HCC over the next two to three years.

Power and road infrastructure – HCC's core segments – to get bulk of 11th Plan investment

Infrastructure investment of Rs 23.8trillion during the 11th Plan

According to the government Committee on Infrastructure, an investment of Rs 23.8tn will be made towards building India's infrastructure across segments during the 11th Plan (2007–12). This amounts to ~7.5% of the country's GDP on an average over the plan period, with electricity and roads receiving a majority of the fund allocation at 30% and 15% respectively. Since HCC is present in segments having a higher share of investments like power, roads, water supply and irrigation, we expect healthy order inflows over the next five years.

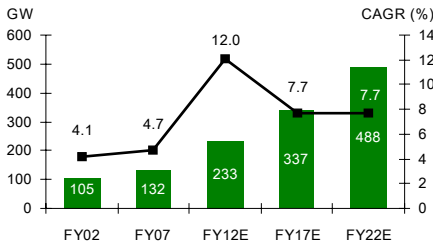
Segment-wise investment of Rs 23.8tn during 11th Plan (2007-12)



Source: Committee on Infrastructure report, Oct 2007

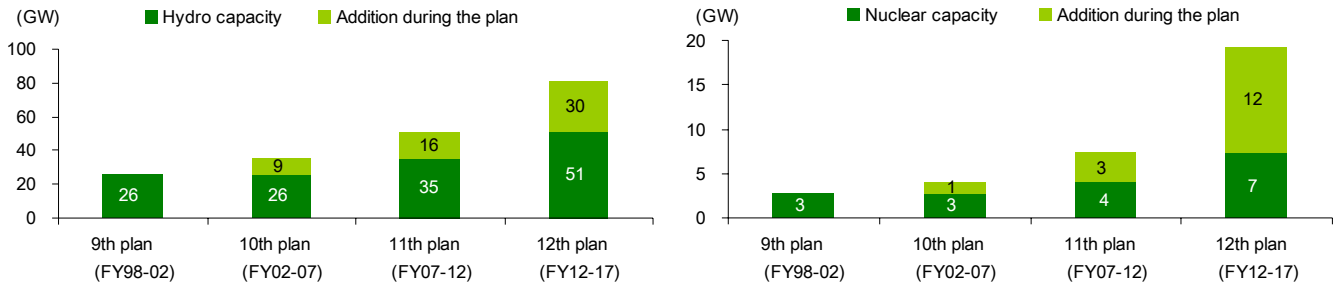
Healthy order inflows expected for hydel and nuclear power projects: According to a recent Working Committee report on power, India requires an addition of 78GW and 82GW for the 11th Plan (2007–12) and 12th Plan (2012–17) respectively based on a scenario of 9% GDP growth and an elasticity of 0.8%. However, considering project preparedness, an actual addition of 68,869MW and 82,200MW is feasible during the 11th and 12th Plan periods respectively.

Projected generation capacity addition



Source: Integrated Energy Policy

Planned generation capacity for hydro and nuclear power



Source: Working Committee Report on Power

Major hydroelectric contracts awarded to HCC during FY07

Particulars	MW	Value (Rs bn)
Loharing Pala hydroelectric project, Uttarakhand	4x150	2.5
Nimoo Bazgo hydroelectric project, J&K	3x15	3.8
Chutak hydroelectric project, J&K	4x11	4.1

Source: Company, Religare Research

HCC among the three dominant players in hydel power

Orders for 3,654MW of hydel projects are yet to be awarded so as to meet the 11th Plan targets. During the 12th Plan, a capacity addition of ~30GW is likely in the hydropower segment, with 11–13GW to be added in the nuclear space. With only three players – HCC, Gammon India and Patel Engineering – dominating the hydel project market, we expect healthy order inflows for HCC in this segment. In nuclear power as well, three main players dominate the market – L&T, HCC and Gammon.

Sector-wise power capacity additions during the 11th Plan

Sector (MW)	Hydro	Thermal	Nuclear	Total
Projects under construction	11,931	16,254	3,160	31,345
Committed projects	3,654	33,870	-	37,524
Total	15,585	50,124	3,160	68,869

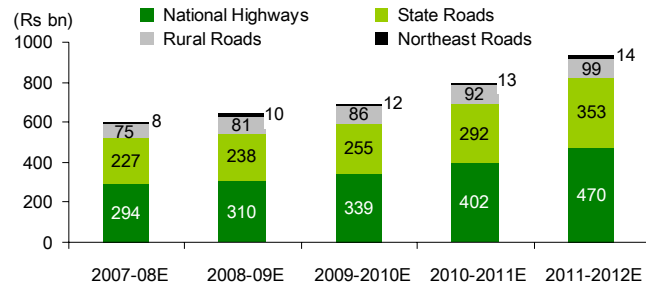
Source: Working Committee Report on Power

Investments on roads to grow at 12% CAGR up to 2012: The improvement of India's roads and highway infrastructure has emerged as a clear focal point of the government's 11th Plan. According to the Committee on Infrastructure, investments in highways and roads will log a CAGR of 12% over FY08–FY12, aggregating Rs 3.7tn during the 11th Plan.

Players like IVRCL, L&T, Nagarjuna Construction (NCC) and Gammon have a strong presence in BOT road projects. HCC is a new entrant in this space with a 30km BOT development contract in Andhra Pradesh under NHDP Phase II. The company is no longer averse towards bidding for BOT projects, thus opening up a vast opportunity.

Entry into BOT projects has thrown open vast potential for the company

Projected investments by type of roads during the 11th Plan



Source: Committee on Infrastructure report, Oct 2007

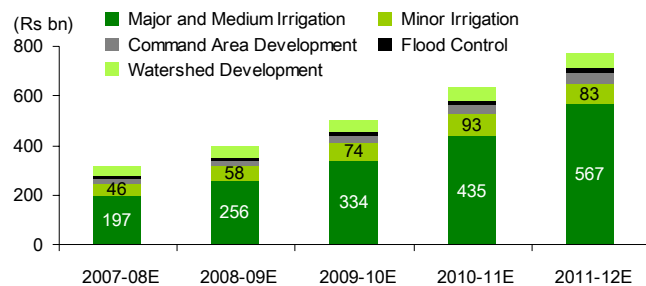
Major road projects awarded/under execution by HCC during FY07

Particulars	Length (km)	Value (Rs bn)
North-South Corridor (NHDP Phase II)	30	2.8
4-laning of Chandikhole-Paradip section of NH-5A	77	3.3
4-laning of concrete paved road in Allahabad bypass-II	40	4.5
4-laning contract for Chennai Bypass, Tamil Nadu	32.5	4.1

Source: Company, Religare Research

Rs 2.6tn to be invested in irrigation: An investment of Rs 2.6tn is expected to be made towards the irrigation sector during the 11th Plan, with Major and Medium Irrigation garnering a 68% share. All the major players like L&T, IVRCL, NCC, Gammon and HCC have a strong presence in this segment.

Projected investments towards irrigation during the 11th Plan



Source: Committee on Infrastructure report, Oct 2007

Major water/irrigation projects awarded to HCC during FY07

Particulars	Value (Rs bn)
Gosikhurd Project Ghodazari Branch Canal	1.1

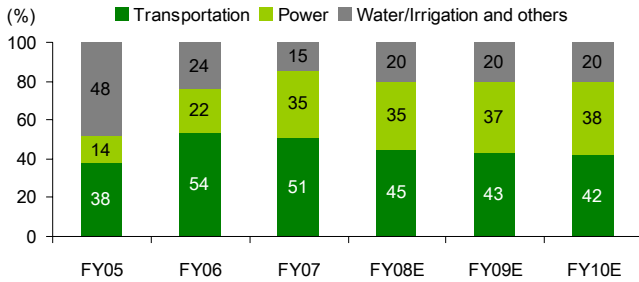
Source: Company, Religare Research

Margins to recover ground

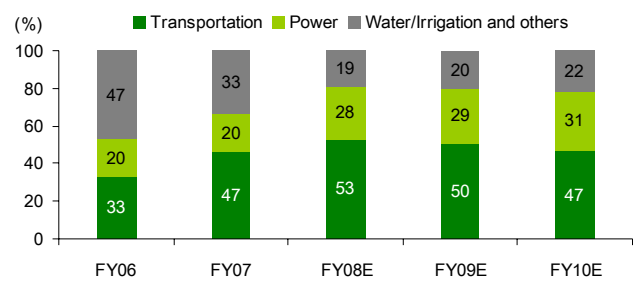
Reduction in Bandra-Worli Sea Link losses, favourable mix to expand margins

HCC's EBITDA margins have been severely impacted due to the Bandra-Worli Sea Link project, which started in FY04. From high margins of 17% in FY04, the EBITDA margin has dropped to 9.1% in FY07. Accumulated losses on the project till date are expected to be in the region of Rs 2.5bn, with Rs 710mn incurred in FY07 and Rs 200mn in Q1FY08. Excluding this project, the margin for FY07 would have been 300bps higher at 12.1%.

Order book mix



Sales mix

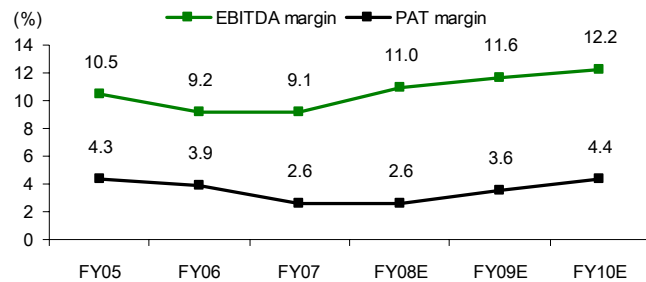


Source: Company, Religare Research

We expect HCC's EBITDA margin to improve based on: a) the reduction in losses from the Bandra-Worli Sea Link project along with recovery of claims for losses incurred on the project. This will enable HCC to mobilise funds towards core projects and improve their execution, b) an improving order book position and stronger execution, which will bring in volume benefits, and lastly c) an order mix shift in favour of high-margin power and irrigation projects.

Reduced losses on the sea link project would be instrumental in expanding margins

EBITDA and PAT margins over FY05-FY10E



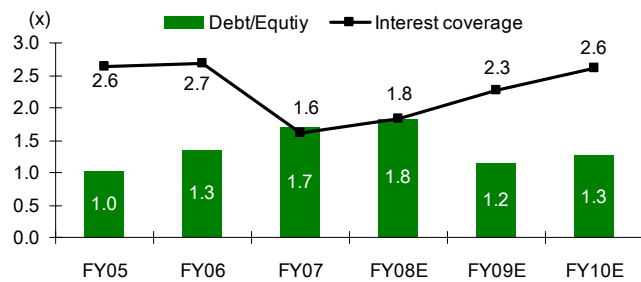
Source: Company, Religare Research

PAT margin to improve by 100bps in FY09E

With the withdrawal of tax benefits to construction players under Section 80-IA in 2007, HCC transferred Rs 425.2mn from its general reserves to meet the previous years' tax liability. Adjusted PAT thus showed a reduction of 130bps in FY07.

Going ahead, we expect PAT margins to remain constrained by high interest cost, though there could be some improvement in the interest coverage ratio from 1.6x FY07 to 2.3x in FY09. The recovery of claims towards the Bandra-Worli Sea Link project would strengthen its balance sheet and also bring down the interest burden.

Interest coverage and debt-equity ratio



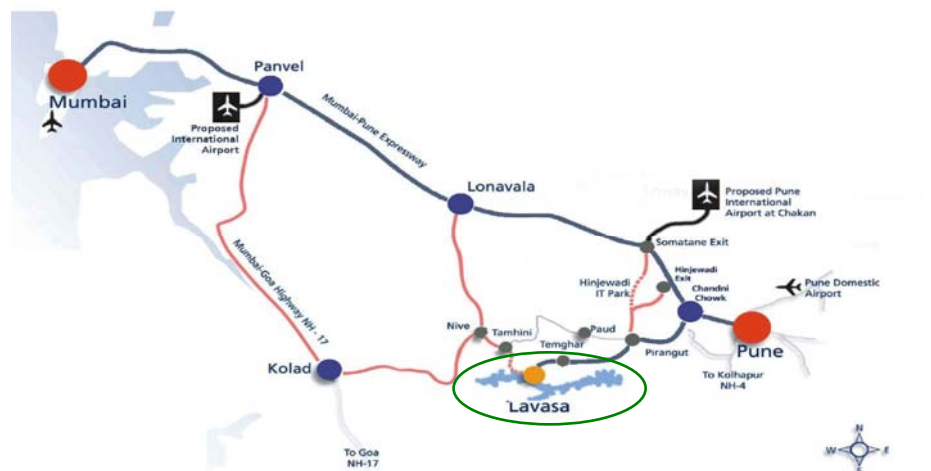
Source: Company, Religare Research

Realty projects expected to become self-financing by FY09

We have not factored in such a scenario, but believe the worst is over for the company with both, lower losses from the sea link project and a reduced burden on the core balance sheet from its real estate venture. HCC has expended substantial resources towards making its real estate venture a success, including an equity investment of Rs 2.1bn in HCC Real Estate. Now, with much of the foundation having been laid, its realty projects are expected to become self-financing by FY09. Consequently, HCC would be in a stronger position to grow its core business by way of better fund allocation and increasing core project execution.

Lavasa – the jewel in HCC’s crown

Site of the Lavasa township



Source: Company

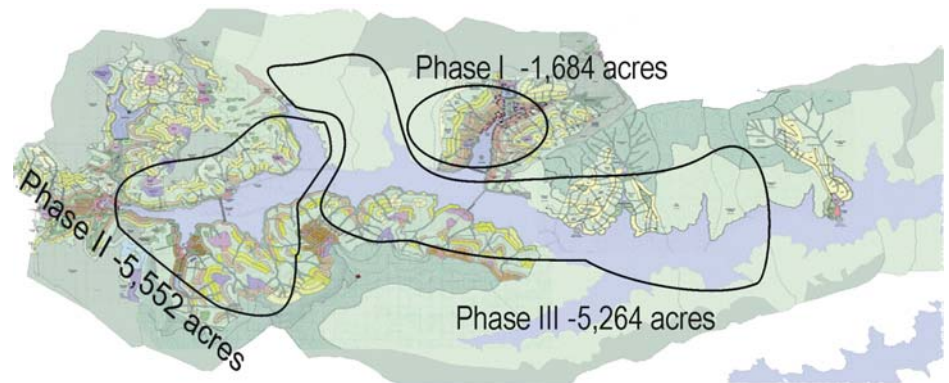
HCC is currently developing a 12,500-acre integrated township located 20km around the backwaters of Warasgaon lake in Mose valley, near Pune. The project is being developed by Lavasa Corporation, in which HCC’s wholly owned subsidiary – HCC Real Estate – holds a 63% stake.

Touted as the “Next Hill Town” of Maharashtra

The Lavasa project is being developed as a plush, modern age hill town for multiple socio-economic classes and tourists. The project would be the largest urban infrastructure project in India with lakeside apartments, luxury villas, branded hotels, event and convention centres, an educational area, IT and biotech parks, and recreation facilities. Lavasa has been branded as a self-contained world with an environmental-friendly design where 70% of the area would be kept green by landscaping, reforestation and other techniques. Dasve Village (phase I of the project) has already received an award for the master plan from the Congress for New Urbanism, USA.

Lavasa being developed as a plush hill town spread across 12,500 acres

Lavasa development plan



Source: Company

Lavasa could generate revenues of over Rs 100bn in the next 15-17 years

The master plan for Lavasa has been developed by HoK, USA while the project branding has been done by Landor, Hong Kong. Over the next 15 years, HCC plans to build up a permanent population of 100,000 people with a floating tourist population of 1mn per annum. It also plans to have 17 different dams, of which the Davse dam has been completed.

Key component of HCC's valuation

The Lavasa project could bring in revenues in excess of Rs 100bn for the company over the next 15–17 years, and is a key component of HCC's valuation (valued at Rs 198/share or close to 60% of our price target for the company).

Phase I to be completed in 2010

Lavasa is to be completed in three phases over a 12–15 year timeline with the first phase of 1,684 acres scheduled for completion in 2010. HCC has acquired 11,500 acres of land for the project, with a clear title on 9,000 acres. The company has invested ~Rs 6.5bn on Lavasa to date. It will be spending ~Rs 2bn on tourism-related activities, of which Rs 1bn has been already incurred. In addition, it has incurred close to Rs 1bn on building 50km of roadways to and within Lavasa. The balance amount has been spent on building infrastructure and on project branding.

Phase I relates to the development of 1,684 acres of land comprising 1,000 lakeside apartments and villas, luxury hotels of Sheraton, Accor and ITC, a 200-acre educational zone and a 200-acre health and wellness centre.

Phase I tie-ups

Segment	Tie-up with	Comment
Residential		400 lakeside apartments and villas which are already sold at an average price of Rs 2,950/sq ft
Hotels & resorts	Sheraton	250-room hotel and 150,000sq ft convention centre (200 room resort in ph II)
	Accor	150-room mid-scale hotel under brand name Novotel (250 rooms under brand Mercure in ph II)
	ITC	60-room mid-scale hotel
Educational zone (200 acres)	Girls' Day School Trust	Manages 27 public schools in UK including Oxford school
	Symbiosis	Campus across 60 acres
Health & Wellness centre (200 acres)	Apollo Hospitals	150-bed hospital, medical research and therapeutic care

Source: Company

Valuation

We have used a sum-of-the-parts (SOTP) valuation for HCC, assigning separate values to its core business, Lavasa, BOT road contract and slum rehabilitation projects.

Core business valued at Rs 105/share

We have valued HCC's standalone business using the DCF model, based on a WACC of 11.6%, cost of equity of 16.1%, cost of debt of 5% and beta of 1.15. This gives us a fair value of Rs 105/share.

Valuation of Lavasa at Rs 198/share for HCC

We have also valued Lavasa using the DCF model, discounting cash flows at 15% over a 15-year timeline. We estimate that revenues will accrue from phase I over FY08-FY10, from phase II over FY10-FY16 and from phase III over FY14-FY22. Accordingly, we value HCC's stake in Lavasa at Rs 54.3bn, for which the one-year forward per share value comes to Rs 228. Assigning a holding company discount of 15%, we arrive at a net per share value Rs 198 for the project for HCC.

DCF model yields fair value of
Rs 198 for HCC's stake in
Lavasa

Assumptions for Lavasa valuation

Phase	Realisation (Rs/sq ft)	Expenditure (Rs/sq ft)	Period
I	2,950–4,000	1,515	FY08–FY10
II	3,250–7,000	1,615–2,216	FY10–FY16
III	4,000–12,000	1,815–2,516	FY14–FY22

Source: Company, Religare Research

Cash flow assumptions for Lavasa project

Particulars (Rs bn)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
EBIT	2.9	4.5	11.5	12.8	15.1	20.9	35.0	45.7	58.4	29.9	37.0	47.8	68.1	118.2	63.4
Cash flow	2.0	3.4	10.0	11.3	13.5	18.9	32.1	42.2	54.1	27.6	34.4	44.4	63.4	109.9	59.0
Tax	0.7	1.1	3.4	3.8	4.5	6.3	10.8	14.1	18.1	9.2	11.5	14.9	21.2	36.8	19.8
FCF (discounted at 15%)	1.3	1.8	4.7	4.6	4.8	5.8	8.6	9.8	11.0	4.9	5.3	5.9	7.3	11.1	5.2

Source: Company, Religare Research

Valuation of Lavasa

Particulars (Rs bn)	Assumption
Gross NPV	92.1
Less: Debt	6.5
Net Value	85.6
HCC stake at 63.5%	54.4
Shares outstanding (mn)	274
Per share value (Rs)	198
One-year forward value per share (Rs)	228
Holding company discount	15%
Final per share value (Rs)	198

Source: Religare Research

IT Park and two slum rehab projects being developed across 5mn sq ft

Realty projects in Mumbai valued at Rs 26/share

Apart from Lavasa, HCC owns a land bank of 1,536 acres in Maharashtra with a developable area of 36.4mn sq ft. The company is currently developing an IT Park and two slum rehabilitation projects across 5mn sq ft, which we have factored into our valuations. We have not built in the balance land bank (31.4mn sq ft) into our estimates as the company is still in the process of land acquisition.

IT Park: We have valued the IT Park at Vikhroli, Mumbai using the capitalisation method, by discounting cash flows at 15% over FY08–FY12. HCC's per share value for the project comes to Rs 10 after incorporating a holding company discount of 15%.

Vikhroli West IT Park assumptions

Particulars	Assumption
Development area (mn sq ft)	1.95
Leased out (mn sq ft)	1.375
Lease rental per month (Rs/sq ft)	60-70
Land cost (Rs/sq ft)	2,000
Total cost (Rs mn)	4,400

Source: Religare Research

Vikhroli West IT – Free cash flows

Particulars (Rs mn)	FY08E	FY09E	FY10E	FY11E	FY12E
Total sales	-	-	879	967	10,793*
Total expenditure	2,660	1,540	17	18	20
EBITDA	(2,660)	(1,540)	863	949	10,773
FCF (discounted at 15%)	(2,480)	(1,249)	608	582	5,744

Source: Religare Research, *Capitalised at 10%

Valuation based on capitalisation

Particulars	Amount (Rs mn)
Gross NPV	3,204
Per share value (Rs)	11.7
Holding company discount	15%
Final per share value (Rs)	10.2

Source: Religare Research

Slum rehab land at Powai and Vikhroli: For these two Mumbai-based projects, we have discounted cash flows at 15% over FY09–FY10. Factoring in a holding company discount of 15%, we arrive at fair values of Rs 6.7 and Rs 8.5 respectively.

Slum rehab project assumptions

Particulars	Powai	Vikhroli East
Area (acres)	12	15
Number of dwellers per acre	417	417
Selling price of built up area (Rs/acre)	6,500	6,500
Cost of construction (Rs/acre)	1,600	1,600

Source: Religare Research

Slum rehab projects – Free cash flows

Particulars (Rs mn)	Powai		Vikhroli East	
	FY09E	FY10E	FY09E	FY10E
Net profit	1,135	1,703	1,428	2,142
FCF (discounted at 15%)	921	1,201	1,158	1,510

Source: Religare Research

Valuation

Particulars (Rs mn)	Powai	Vikhroli East
Gross NPV	2,121	2,668
Per share value (Rs)	7.7	9.7
Holding company discount	15%	15%
Final per share value (Rs)	6.7	8.5

Source: Religare Research

BOT project in Andhra Pradesh valued at Rs 4/share

During FY07, HCC bagged a BOT road project on annuity basis. This is a build-cum-operate contract for a 30km highway between Kadthal to Armur in Andhra Pradesh. We value the project at Rs 974mn which is 1.8x P/BV on an ROE of 19.4%.

BOT project – free cash flows

Particulars (Rs mn)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Annuity	-	-	476	495	515	535	557	579	602	626	651	677	705	733	762	793	824	857	892	927
Outflow/Inflow for equity	(220)	(330)	(26)	4	31	58	86	113	142	171	200	229	460	473	487	502	517	532	548	564
IRR	19.4%																			
Discount rate	13%																			
Value for equity	-		(20)	3	18	30	40	47	52	56	58	59	105	97	88	81	74	68	62	57

Source: Religare Research

Valuation of BOT project

Particulars	Amount (Rs mn)
Total value for equity	974.0
Per share value (Rs)	3.6

Source: Religare Research

SOTP target price of Rs 333 for HCC; Buy

Our SOTP valuation yields a fair value of Rs 333 for HCC, signifying an appreciation of 59% from current levels. We initiate coverage on the stock with a Buy recommendation.

Valuation summary

Particulars	Value for HCC (Rs mn)	Value per share (Rs)	% to total	Comment
Total standalone value	28,873	105	32	Based on DCF, inversely at 10.6x EV/EBITDA and 21.0x P/E on FY09E
Lavasa	54,371	198	59	DCF, discounted at 15%
Vikhroli West IT Park	3,204	10	3	DCF, capitalised at 10%
Powai (Slum rehab)	2,121	7	2	DCF, discounted at 15%
Vikhroli East (Slum rehab)	2,668	9	3	DCF, discounted at 15%
BOT road project in AP	974	4	1	DCF, inversely at 1.8x P/BV and ROE of 19.4%
Total value		333	100.0	

Source: Religare Research

Recommendation history

Date	Event	Reco price	Tgt price	Reco
04-Dec-07	Initiating Coverage	209	333	Buy

Source: Religare Research

Stock performance

Source: Religare Research

Financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	19,869.8	23,576.2	29,681.0	38,479.0
Growth (%)	33.6	18.7	25.9	29.6
EBITDA	1,828.8	2,152.6	3,250.1	4,463.6
Growth (%)	17.3	17.7	51.0	37.3
Depreciation	524.5	796.6	950.0	1,050.0
EBIT	1,304.3	1,356.0	2,300.1	3,413.6
Growth (%)	17.9	4.0	69.6	48.4
Interest	484.3	836.5	1,251.1	1,509.1
Other income	74.2	238.6	100.0	150.0
EBT	894.2	758.1	1,149.1	2,054.4
Growth (%)	23.3	(15.2)	51.6	78.8
Tax	153.3	386.1	372.1	679.4
Effective tax rate (%)	17.1	50.9	32.4	33.1
Adj net income	771.8	615.8	774.4	1,375.0
Growth (%)	19.6	(20.2)	25.8	77.6
Shares outstanding (mn)	256.3	256.3	256.3	273.9
FDEPS (Rs)	3.0	2.4	3.0	5.0
DPS (Rs)	0.7	0.7	0.8	0.9
CEPS (Rs)	4.9	4.6	6.7	8.9

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	1,248.0	367.6	1,192.4	1,375.0
Depreciation	524.5	796.6	950.0	1,050.0
Other adjustments	4,228.6	124.3	46.0	82.2
Changes in WC	(3,499.2)	(7,847.6)	(2,179.0)	(3,414.4)
Operating cash flow	2,501.8	(6,559.1)	9.3	(907.2)
Capital expenditure	(2,116.9)	(3,722.2)	(2,000.0)	(2,000.0)
Investments	634.5	(1,021.7)	(500.0)	(500.0)
Other investing inc/(exp)	0.0	0.0	0.0	0.0
Investing cash flow	(1,482.4)	(4,743.9)	(2,500.0)	(2,500.0)
Free cash flow	1,019.4	(11,303.0)	(2,490.7)	(3,407.2)
Issue of equity	26.9	0.0	0.0	4,375.1
Issue/repay debt	8,343.6	3,551.6	2,750.0	(375.1)
Dividends paid	(204.6)	(224.9)	(233.7)	(281.1)
Others	0.0	0.0	0.0	0.0
Financing cash flow	8,166.0	3,326.7	2,516.3	3,718.9
Beg. cash & cash eq	874.6	10,060.0	2,083.7	2,109.3
Chg in cash & cash eq	9,185.4	(7,976.3)	25.6	311.7
Closing cash & cash eq	10,060.0	2,083.7	2,109.3	2,421.0

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	10,060.0	2,083.7	2,109.3	2,421.0
Accounts receivable	28.0	5.4	8.2	10.7
Inventories	10,307.2	17,386.1	20,988.6	26,721.5
Others current assets	1,991.8	3,587.0	4,691.6	6,092.5
Current assets	22,387.0	23,062.2	27,797.7	35,245.8
LT investments	1,264.7	2,286.4	2,786.4	3,286.4
Net fixed assets	4,920.6	7,461.6	9,024.3	9,974.3
CWIP	1,074.3	1,512.7	1,000.0	1,000.0
Total assets	29,646.6	34,322.9	40,608.4	49,506.4
Payables	7,739.8	8,439.0	10,864.7	14,429.6
Others	372.4	477.1	582.3	739.3
Current liabilities	8,112.2	8,916.1	11,447.0	15,168.9
LT debt	11,959.0	15,510.6	18,260.6	17,885.5
Other liabilities	677.3	855.4	901.4	983.5
Equity capital	256.3	256.3	256.3	273.9
Reserves	8,641.8	8,784.5	9,743.1	15,194.5
Net Worth	8,898.1	9,040.8	9,999.4	15,468.5
Total liabilities	29,646.6	34,322.9	40,608.4	49,506.4
BVPS (Rs)	34.7	35.3	39.0	56.5

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	9.2	9.1	11.0	11.6
EBIT margin (%)	6.6	5.8	7.7	8.9
Net profit margin (%)	3.9	2.6	2.6	3.6
FDEPS growth (%)	7.0	(20.2)	25.8	66.1
Receivables (days)	0.5	0.1	0.1	0.1
Inventory (days)	183.0	261.4	255.0	250.0
Payables (days)	35.3	52.3	55.0	55.0
Current ratio (x)	2.8	2.6	2.4	2.3
Interest coverage (x)	2.7	1.6	1.8	2.3
Debt/equity ratio (x)	0.7	0.6	0.5	0.9
ROE (%)	12.0	6.9	8.1	10.5
ROCE (%)	9.0	6.4	7.7	9.4
ROAE (%)	5.8	4.5	5.4	6.4
EV/Sales (x)	3.2	2.8	2.4	1.9
EV/EBITDA (x)	34.7	31.1	21.5	16.3
P/E (x)	66.8	83.7	66.6	40.1
P/BV (x)	5.8	5.7	5.2	3.6
P/CEPS (x)	40.7	44.1	29.8	22.7

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

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