

HCC

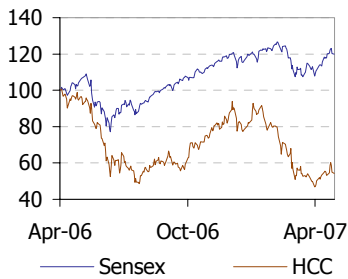
 Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 256mn
 Market cap : Rs 25bn
 52 week high/low : Rs 177/ Rs 83
 Avg. daily vol. (6mth) : 2.7mn shares
 Bloomberg code : HCC IN
 Reuters code : HCNS.BO

Shareholding (%) Mar-07 QoQ chg

Shareholder	Mar-07 (%)	QoQ chg
Promoters	47.0	0.0
FII's	14.5	(2.2)
MFs / UTI	9.3	(1.4)
Banks / FIs	2.4	1.6
Others	26.8	2.0

A PAUSE BEFORE REGAINING MOMENTUM

Hindustan Construction's (HCC) FY07 results were inline with our expectations. On a standalone basis, HCC reported revenues of Rs 23.6bn (up 19% YoY), EBIDTA of Rs 2.2bn (up 20% YoY) and adj. PAT of Rs 682mn (down 12% YoY). As expected, reversal of 80 IA benefits resulted in a full tax rate of 33% vs. earlier MAT rate of 11%, thus impacting the bottom line.

FY07 analyst meet highlights

- After adjusting for the disputed Rs 19bn J&K hydro project; order backlog stands at Rs 74bn (down 5%). However, the mix has improved with the hydropower segment at 35% vs. 23% in FY06.
- Despite booking Rs 710mn losses on the Bandra-Worli sea-link and a 59% increase in staff costs, OPM was sustained at 9.4%.
- HCC reported cash on books of ~Rs 2.5bn, while debt (incl. Rs 4.5bn FCCBs) stands at Rs.15bn. An additional ~Rs 3bn is blocked in work-in-progress which is likely to reduce as the same is converted into revenues.
- **Real Estate:** HCC has dropped plans for the Navi Mumbai real estate projects while the developable area in Lavasa stands revised at 150mn sq ft (vs 100mn sq ft earlier). However, the total developable land bank remains at 186mn sq. ft. (incl. 1500 acres or 32mn sq. ft. still under acquisition). HCC has invested Rs 2bn in its real estate venture and revenues from the same are expected to flow in FY09 onwards.

Order intake to gain traction

HCC has L1 status in Rs 24bn worth of projects and will further bid for projects worth Rs 179bn. Thus, while order intake declined in FY07, we expect it to gain traction going forward. Since the Rs 19bn J&K hydro project continues to be under dispute, we are excluding it from our revenue forecast, thus revising the forecast downwards by 14%. However, we expect OPM to expand 160bps over FY07-09E with improving revenue mix. Our FY08 earnings estimate thus stands revised downwards by 13% at Rs 3.8. At CMP (Rs 97), adj for BoT+ real estate value of Rs 58, the stock trades at an EV/ EBIDTA of 6x FY09E. We maintain our sector **Outperformer** rating.

Financial summary (Standalone)

Y/E Mar	Sales (Rs mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2006	19,801	778	-	3.0	2	57.1	12.5	9.2	25.4	0.7
2007	23,576	683	-	2.7	(12)	33.6	7.6	7.4	14.4	0.8
2008E	29,838	1,039	5.6	3.8	42	25.7	11.2	9.4	11.5	0.8
2009E	37,286	1,764	7.8	6.4	70	15.1	17.5	13.4	8.4	0.9

Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs. mn)	Quarter ended					Y/E ended (Standalone)		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	8,277	7,681	7.8	5,361	54.4	29,838	23,576	26.6
EBIDTA	722	675	7.0	583	24.0	3,033	2,236	35.6
Other income	169	20	746.1	83	103.7	53	249	(78.8)
PBIDT	892	695	28.3	666	34.0	3,086	2,485	24.2
Depreciation	244	147	66.0	206	18.5	800	797	0.4
Interest	213	85	150.0	175	21.4	736	620	18.8
PBT	435	463	(6.1)	285	52.8	1,550	1,069	45.0
Tax	179	46	285.8	65	175.5	511	386	32.4
Adjusted PAT	257	417	(38.4)	220	16.7	1,039	683	52.1
Extra ordinary income/ (exp.)	(315)	-	-	0	-	(330)	(315)	4.7
Reported PAT	(59)	438	-	220	(126.6)	709	368	92.8
No. of shares (mn)	256	256	-	256	-	274	256	-
EBIDTA margins (%)	8.7	8.8	-	10.9	-	10.2	9.5	-
PBIDT margins (%)	10.8	9.0	-	12.4	-	10.3	10.5	-
EPS - annualized (Rs.)	4.0	6.5	(38.4)	3.4	16.7	3.8	2.7	42.2

Source: Company, ENAM Research

Sum of parts valuation

HCC (Rs mn)	Sales		EBIDTA		Adj. PAT		Target multiple (x)	EV
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	on FY08E EBIDTA	
Core construction business	29,838	37,286	3,033	4,178	1,039	1,764	6.5	27,155
BOT Projects	Cost	Equity	Stake (%)	HCC equity	IRR# (%)		On BV of equity	
Pune-Paud toll road	280	40	100	40	16		1.88	75
Annuity project*	2,750	550	100	550	16		1.88	1,035
Total	280	590	-	590	-		-	1,111
Real estate (Developable land bank)	(mn sq. ft)	Stake (%)	Comment				Est Value of Project	
Lavasa - Integrated residential township	60	62	Phased over 11 yrs, discounted @14% WACC				3,305	
Lavasa -Commercial development	90	62	Phased over 11 yrs, discounted @14% WACC				7,911	
Vikhroli Corporate Park (Mumbai)	1	100	To be completed by March 2009, discounted @16%				1,468	
SRS in Mumbai	2	100	Residential development over 2008-2012, discounted @16%				1,148	
Total	154							13,832
Total EV								42,098
Net debt								13,973
Market cap								28,125
FY07E Diluted equity capital (no. of shares mn)								256
Value/ share (Rs)								110

Source: ENAM estimates, * Debt to equity ratio assumed 80:20; # ENAM estimates

Note: We have not factored in the additional 1500 acres of land contracted during Q3 into our valuations since the land acquisition is still not complete.

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